Ontario

FINAL REPORT
and
RECOMMENDATIONS
of the

ADVISORY COMMITTEE
on
JUNIOR RESOURCE FINANCING
and the
COMPETITIVE POSITION OF ONTARIO

VOLUME ONE

CAPITAL MARKETS

July 1986

July 4, 1986.

The Hon. David Peterson,
Premier and Acting Minister,
Ministry of Northern Development
and Mines,
10th Floor,
10 Wellesley St. E.,
Toronto, Ontario.
M4Y 1G2

Dear Mr. Premier:

Further to our discussion and the terms of reference establishing the Committee on Junior Mine Financing we are pleased to submit our report.

The report covers two broad areas which affect the junior mining industry; firstly, the financing aspects of the business and secondly all the components that affect the competitive position of Ontario in the mining sector.

For the junior resource financing sector, the committee believed for a number of reasons that the best approach would be to draft a new securities policy for resource issues rather than simply making a series of recommendations. This has been done and is included in our report along with a detailed summary outlining the reasoning behind the various sections.

The competitive position of Ontario is a large and complex issue and only a number of the principal items could be addressed. As expected there are conflicting issues such as the need to be cost competitive with other countries and at the same time, maintaining the high Canadian standards for wages, social programs and environmental issues. Also a number of recommendations need approval from the federal government or the approval of other ministeries of your government. However, each and every recommendation would help make Ontario more competitive and help maintain this important industry. We would like to emphasize the importance of flow-through financing for exploration expenses and urge you to make the strongest possible

recommendation to Ottawa to keep this very important piece of legislation inplace.

The Committee would like to be present with you when you publicly release the report. We recommend that public hearings be held as soon as possible so that the proposed securities policy might be finalized.

We trust that you and your colleagues will give these recommendations careful consideration.

It has been an honour and privilege to serve on this Advisory Committee.

Yours sincerely,

E.G. Thompson, Chairman	I.E. Lyon, Secretary
M.B. Dent	J.T. Flanagan
M.B.C. Gundy	R.M. Hogarth
H.D. Hume	Charles Salter
R.A. Schiralli	W.S. Vaughan
K.R. Wiener	B.M. Young

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SECTION I

INTRODUCTION

Introductory Remarks

The Committee was initiated by the Ministry of Northern Development and Mines to review and make recommendations on:

(1) the effectiveness and efficiency of the Ontario capital market in providing funds for the junior resource industry and to propose changes to make Ontario competitive with other jurisdictions, and

(2) the investment climate for the junior resource industry, in terms of the cost of capital and return on investment in Ontario, reviewing (to the extent that time allows) tax and other incentives available elsewhere.

E.G. Thompson, a past president of the Prospectors and Developers Association of Canada (PDA), and a long-time active participant in the mining and junior resource scene in Canada, was asked in mid-January to be chairman of the Committee and to select a number of knowledgeable and interested individuals from the legal, brokerage, junior mining, regulatory and taxation communities to assist in the study. The Committee members are listed at the end of the introduction. They all donated their time and experience and provided invaluable assistance in the preparation of this report. Since all the members are involved in the day-to-day operations of their particular lines of business, the Committee was able to tap an enormous amount of practical experience.

The Committee met weekly and various sub-Committees met more frequently. The most active sub-Committee was the Securities Committee under the direction of R.A. Schiralli, Q.C. Early in the study, the

Committee decided to prepare a draft of the proposed new securities policy rather than just make a set of recommendations. This decision was based on the following factors:

(a) The request by the Ministry was to make practical recommendations that could be implemented as soon as possible. From previous experience, the Committee believed that because of their busy schedule, the Ontario Securities Commission (the Commission) staff would be greatly assisted in their review of our recommendations if they were set out in policy form;

(b) The Committee had an ideal cross-section of people, knowledgeable in all aspects of the business who we believe were ideally suited to propose workable policies;

(c) The Committee was also knowledgeable in the competitive position of other jurisdictions;

(d) The Committee was also concerned about the common problem of taking the recommendations of one group and having a different group translate their recommendations into policy.

While the decision to prepare a draft policy necessitated substantial additional work and delayed the report by two months, the Committee believes that by drafting the policy, the time frame for consideration by the Commission would be very substantially reduced. In our opinion, the proposed policy is fair to all sectors involved, competitive with other jurisdictions, efficient and workable. In addition it now sets in writing a number of formerly unwritten guidelines used by the Commission staff.

In addition to the junior mine financing policy, the chairman met from mid-January to mid-April with a broad spectrum of junior mining

people, brokers, government officials, major company representatives and other interested parties to discuss and to solicit their advice on other issues that affect Ontario's competitive position. As reviewed in this report the principal items were (a) flow-through shares, (b) Ontario Mineral Exploration Program, (c) data base and mining regulations, (d) taxation levels, (e) an Ontario Share Ownership Plan, (f) small grants to help finance new company formations and (g) development grants.

As expected, a wide range of opinions were received on the various issues. The problems of junior companies are different than those of major companies just as regulators, promoters, securities-dealers and Exchange member firms have different concerns. While the mandate of our Committee was to look at methods of improving the competitive position of the junior resource industry, the Committee was cognizant of the problems in the senior mining industry and also recognized the mandate of the Commission to protect the public in security matters. In general, because of the inter-related nature of our business, the policies that are favourable for the junior companies are just as favourable or better for the mining companies (e.g. flow-through shares that were originally instituted for the junior companies). Major mining companies like Noranda, Falconbridge, Placer and Teck all strongly support the idea of a strong junior sector of the mineral exploration and mining business.

In addition to the personal meetings, a two stage questionnaire was sent out to 274 recent (1985) users of the Ontario Mineral Exploration Program (OMEP) and to 30 other companies (mainly majors) and individuals. The questionnaire sought comments on the usefulness of OMEP and how it might be improved, and on the possible action that the provincial government might take to improve conditions for junior mining and mining in general. In addition personal requests were made for input from numerous companies.

The Committee wishes to acknowledge and thank all sectors of the mining industry, financing houses, stock exchanges, government agencies and regulatory bodies for the tremendous support and cooperation received. Their positive attitudes indicate that we have a reasonable opportunity in Ontario to re-establish a risk capital market for junior mining companies and to implement policies so as to remain competitive in the world mining industry.

Acknowledgements

A study of this size and scope required the effort of many people in the mining industry and related industries. The committee would like to acknowledge this general support and specifically the companies and individuals listed below.

In 1985, the Centre for Resource Studies prepared an excellent study entitled "Effects of Location on Mine Development Potential, Nova Scotia's Competitive Position in Canada." The information is current and many of the conclusions are applicable to Ontario and with their permission, a precis is included in Appendix I.

Tax studies done by the Mineral Policy Section of Energy, Mines and Resources in Ottawa under the direction of Keith Brewer and by Bob Parsons of Price Waterhouse in Toronto were utilized in the section on competitive taxation.

Dr. Vic Milne, Director of the Ontario Geological Survey, was helpful in discussion and drafted a section on the geoscience data base. Various directors of the Prospectors and Developers Association of Canada reviewed sections of the report and provided input.

Data for the mining incentives study and the OMEP study was received from over 100 companies. Many people contributed ideas and/or

comments on drafts of various sections including Dr. Lionel Kilborn, Alan Coope, Dr. Terry Podolosky, Michael Gray, Don Ross, Dave Rogers, John McAdam, Fenton Scott, Dutch Van Tassell, Henrik Thalenhorst, Dave Hutton, Hugh Cleland, Ron Campbell, Jack Patterson, Peter McCarter, Marvin Singer, John Morganti and Bruce McDonald. The staff at William Hill Mining Consultants Limited provided secretarial and other services.

The Chairman travelled to Vancouver and met for three days with representatives of the Vancouver Stock Exchange, the Superintendent of Brokers, the B.C. and Yukon Chamber of Mines, and the brokerage, mining and legal fraternities in order to learn the current status of mining financing in Vancouver and the reason for their success. He was cordially received and information was made readily available.

The Chairman also met with representatives of the Government of Quebec to review and discuss their incentives. Again the cooperation was complete.

The Securities Sub-Committee under the chairmanship of R.A. Schiralli, Q.C. and composed of Messrs. R. Hogarth, E. Thompson, W.S. Vaughan, K. Wiener and B. Young met several evenings per week over 3 months to draft a new policy. R.A. Schiralli, Q.C. of the firm Armstrong, Schiralli and Dunne, did most of the drafting with able legal assistance from W.S. Vaughan and K. Wiener. In addition the legal firms of Aird & Berlis and Smith, Lyons, Torrance Stevenson & Mayer reviewed the document and prepared comments which were most appreciated.

Committee member Charles Salter, Vice-Chairman of Ontario Securities Commission, advises that while he supports many of our junior mining policy recommendations, decisions on a new policy will be made by the full Commission following public meetings to review the Committee's recommendations. Further, Mr. Salter notes that some of our recommendations in Section II comment on certain social and other policies, noting

that they contribute to the mining industry's cost burdens. Mr. Salter disassociates himself from these questions so far as they relate to policies of the Ontario government.

Mr. Wiener participated as a member of the Committee in his personal capacity. The Board of Governors of The Toronto Stock Exchange has not considered the Report of the Committee.

Committee member Barry Dent of Clarkson Gordon prepared the information on flow-through shares and the summary of mining income in Canada and the section on Ontario Taxes. Steve Vaughan prepared the 20 year review of Ontario Policies affecting junior resource companies.

The Committee wishes to thank the Minister for his interest and support. The Chairman met on numerous occasions with the Deputy Minister George Tough and Assistant Deputy Minister Dennis Tieman and he would like to also acknowledge their assistance and keen support. We believe that by working together a stronger and more competitive mining industry can be achieved in Ontario which will benefit all Canadians.

Part of the Chairman's time and expenses were funded by the Ministry of Northern Development and Mines. Israel Lyon, Senior Policy Advisor from the Ministry of Northern Development and Mines, ably acted as Secretary of the Committee.

Terms of Reference

The terms of reference as outlined to the Committee on January 23, 1986 are given below.

"The Junior Mining Industry has been a major factor in the development of Ontario's mineral wealth. The Government of Ontario believes that junior mining should play an even greater role than in the past, and

that it will do so if provided with the necessary support and appropriate institutional framework. The Government of Ontario also recognizes, that the competition for mineral sector investment is intense. It is determined that the environment for junior mining companies involved in exploration and development in Ontario will be competitive with other jurisdictions.

"The Study Group under the chairmanship of Ed Thompson will look at two aspects of the investment environment for junior mining.

"First, it will examine the effectiveness and efficiency of the Ontario capital market in providing funds to junior mining. It will review trends in financing arranged in Ontario for Ontario Junior Mining activities, and the extent to which markets in other jurisdictions are providing capital to Ontario's junior miners, and consider the reasons for these trends and their implications. It will also consider new initiatives within The Toronto Stock Exchange and the Ontario Securities Commission including the recently announced COATS system.

"The Study Group will propose changes in the Ontario system, as they are indicated by the review of the past and current situation. In so doing, it will draw upon earlier studies of the issue and consult intensively with the spectrum of companies and individuals involved - as seekers of capital, as members of the trading institutions, as legal and financial professionals, and as regulators in the capital - raising process.

"In its investigations, the study group will give careful consideration to the question of balance between the need for easy access to capital on the part of the industry and the need for a prudent degree of investor protection.

"The second issue to which the Study Group will give attention is the investment climate for junior mining, in terms of the cost of capital and return on investment in Ontario. The Group will review tax and other incentive frameworks elsewhere in Canada (and elsewhere in North America, to the extent possible in a 3 month time-frame), and compare these to the situation in Ontario. To the extent that Ontario appears to be less than competitive, the Group will recommend specific changes to the Ontario system."

In later discussions with the Ministry, the Committee was asked to also consider and make recommendations on several other areas that affect Ontario's competitive position. Specifically, these subjects included:

(a) the role of the Ontario Geological Survey and the provinces geoscience data base;

(b) the Ontario Mineral Exploration Program (OMEP);

(c) the proposed Ontario Share Ownership Plan (OSOP);

(d) the tax environment on the mining industry in Ontario; and

(e) the overall cost structure affecting mining.

Report Structure

This report is divided into two volumes. Volume One addresses the Ontario capital market for junior mining. Volume Two addresses the investment climate, cost structure and geoscience data base for junior mining in Ontario. Each volume has a common introductory section, a summary of its own recommendations, and an appendix summarizing the other volume.

Committee Members

E.G. Thompson	-	Committee Chairman, E.G. Thompson Mining Consultants Inc.
I.E. Lyon	-	Secretary, Ministry of Northern Development and Mines
M.B. Dent	-	Clarkson Gordon
J.T. Flanagan	-	Muscocho Explorations Limited
M.B.C. Gundy	-	Caldwell Securities Ltd.
R.M. Hogarth	-	Cassels Blaikie & Co. Ltd.
H.D. Hume	-	Nuinsco Resources Limited
Charles Salter	-	Ontario Securities Commission
R.A. Schiralli	-	Armstrong, Schiralli & Dunne
W.S. Vaughan	-	Aird & Berlis
K.R. Wiener	-	The Toronto Stock Exchange
B.M. Young	-	B.M. Young & Partners Securities Inc.

SECTION II

THE SUMMARY AND RECOMMENDATIONS OF VOLUME ONE

The Proposed Securities Policy for Resource Issuers

A summary of the proposed Securities Policy For Resource Issuers is outlined below. It is not intended to be exhaustive and reference must be made to the policy for the full text of the provisions discussed below.

Part I - Statement of Principle

Part I sets out the stated mandate of the Committee and designates the issuers to whom the policy is intended to apply. The policy throughout uses the definitions which are contained in the Securities Act (Ontario) (the "Act"). The policy applies to all resource issuers which are reporting issuers in Ontario unless any of the issuer's securities are listed and posted from trading on The Toronto Stock Exchange (the "Exchange"). Non-reporting issuers should also be guided by the policy statement if status as a reporting issuer in Ontario is expected to be sought at a future time.

Part II - The Founder Stock Model

The basic founder stock model is derived from concepts contained in the Founder Stock Policy Statement of the Exchange. This Part contains important definitions which are necessary to understand the application of the founder stock model. Founders are all persons or companies who hold securities of the issuer prior to the initial distribution by prospectus in Ontario. Founders include the promoters who are responsible for organizing or reorganizing the issuer, those persons who

contribute money, and prospectors and other vendors who contribute property to an issuer during its formative period.

The shares which founders hold are divided into value shares and base shares. Value shares represent shares held by founders which do not represent dilution of public investors, that is to say, they have been acquired by the founders at a cost to them equal to the net price per share received by the issuer from the initial prospectus distribution. All other shares which are base shares represent dilution and may be issued for $nil consideration. Normally, both value shares and base shares are shares of the same class and their distinguishing feature is that since base shares represent dilution, they are subject to being placed in escrow.

It should be noted that the maximum dilution permitted is 50%, except that it may increase to 60% where the number of base shares does not exceed 750,000. This contrasts favourably with the Exchange Founder Stock Policy which permits 60% dilution throughout and the junior industrial policy of the Commission which permits up to 70% dilution. The lesser dilution for junior resource issuers was thought appropriate since dealer costs are normally higher for junior resource issuers.

Not all issuers will be subject to the founder stock requirements of Parts II and III of the policy and the rules for exemption are set out.

Part III - Escrow Requirements

This Part deals with base shares and indicates which base shares must be placed in escrow. Generally, all base shares beneficially owned directly or indirectly by founders who are promoters of the issuer, officers and directors of the issuer owning more than 5% of any class of share of the issuer prior to the initial prospectus distribution, and

other persons or companies owning more than 10% of the shares of any class of the issuer prior to the initial prospectus distribution are subject to escrow.

Releases from escrow are in part automatic and in part earned. Automatic releases occur on the acceptance date of the initial prospectus and the anniversary dates of the acceptance date to a maximum of 5 anniversaries. The escrow release table forming part of the policy sets out the percentage of base shares which will be released on an automatic basis over time.

If the dilution caused by base shares is less than 40%, it is possible to obtain a 100% release from escrow of base shares by the simple passage of time. To the extent that the dilution caused by base shares is between 40% and 50%, then automatic releases cannot result in the complete release from escrow of all base shares. In order to accomplish a full release in such circumstances, releases must be earned. Earned releases are possible at all levels of dilution.

To give recognition to the concept of 750,000 vendor shares which was established in earlier policies and is used in other jurisdictions, base shares are divided in two groups, namely the first 750,000 and those in excess of 750,000. For the first 750,000 base shares, earned releases may occur on the basis of expenditures made on the issuer's properties. The intent of the policy is to ensure that significant expenditures occur on the issuer's properties in order to obtain a complete release of base shares. The efficiency of the system is improved as greater amounts of money are spent in work on the claims and the rate at which base shares are released is tied to a varying dollar figure of not less than \$1.00 and not more than \$4.00 in expenditures per base share released. The mechanism assures that significant expenditures on the ground must be incurred. To ensure the long term commitment of the founders to the issuer, the combination of earned and automatic releases may not result

in a complete release from escrow of all base shares earlier than the third anniversary of the acceptance date for the initial prospectus distribution.

There is no minimum founder contribution level required in the policy so that access to its operations is not thereby restricted to wealthy promoters and founders. In all cases 10% of the first 750,000 base shares will be released on the acceptance date of the first prospectus distribution.

To the extent that founders obtain more than 750,000 base shares, the release from escrow of excess shares are subject to a cumulative cash flow per share test. Recognizing that a cumulative cash flow test may be more appropriate for oil and gas issuers to which the policy is also intended to apply, issuers in the mining category may apply to the Director for one half of this earned release when a production decision has been made with respect to a material property and the requisite funds are in place and the second half of the release may be obtained when the property has attained commercial production. These latter two tests correspond directly with the tests existing in the Exchange's Founder Stock Policy.

Founders' shares which have not been released from escrow within 10 years of the acceptance date for the initial prospectus distribution must be donated to the issuer for cancellation and the form of escrow agreement contains a power of attorney intended to accomplish this result. Founders may always apply to the Director for an extension of up to five additional years of the date by which base shares not released from escrow must be donated to the issuer for cancellation.

In essence, as the founder contribution level increases, the rate at which base shares are released from escrow is increased and to the extent that the dilution level increases, the rate at which base shares

are released from escrow decreases. There is an incentive for founders to contribute as large a founder contribution level as possible prior to the initial prospectus distribution. The penalty for low contributions is expressed in terms of the difficulty in obtaining the release from escrow of base shares.

Part IV - Further Conditions on Base Shares or Exempt Issuers

Notwithstanding the rules contained in Part III, the policy contains a mechanism whereby the Director may exercise his discretion and notwithstanding that certain base shares would not be subject to escrow requirements, the Director may require such an escrow as a condition for the acceptance of the prospectus of the issuer.

Part V - Transfers Within Escrow

Base shares in escrow may not be transferred without the consent of the Commission. This Part sets out the guidelines by which the Director will exercise his discretion and permit the transfer of base shares within escrow. These policies are not new and essentially represent a more precise codification of the rules presently applied by the Director.

Part VI - Vendor Consideration for Resource Properties

This Part of the policy statement applies only to the acquisition by an issuer of a resource property or an interest therein after the issuer has filed a prospectus with the Commission. Vendors who have transferred properties to issuers prior to the initial prospectus distribution will be treated as founders and governed by the rules contained in Parts II and III. A distinction is made between an acquisition which is carried out on an arm's-length basis and a non arm's-length basis. As well a distinction is made between resource properties which have a determinate value and those of indeterminate value.

Where the securities of an issuer are issued for mining claims, the resale of those securities are restricted by the Act and normally may not be resold for 18 months from their receipt by the vendor. To correct this problem and encourage prospectors to deal with Ontario mining issuers, vendor shares may be issued to a vendor and resold earlier than is presently the case. 25% of the vendor shares may be issued to the vendor on the date the vendor is first entitled under the vendor's agreement to receive such shares and 25% on each of the dates that falls within 6 months, 12 months and 18 months after the initial receipt date. Once a vendor is entitled to receive shares through the application of the provisions of Part VI such shares may be immediately resold with such resale being subject only to the requirements that the vendor not be a control person and no unusual effort is made to prepare the market. There is no requirement that the issuer be a reporting issuer for any minimum specified period of time. These provisions are designed to make Ontario competitive with other jurisdictions in its ability to encourage prospectors to deal with Ontario issuers.

Determinate value properties are those in respect of which the Director has agreed that a specific value may be attributed. The vast majority of properties will likely be properties of indeterminate value, and there are sufficient incentives in the policy for indeterminate value properties that it is not anticipated that numerous applications will be made to the Director for properties to be given determinate value status. Unless a property is of determinate value it is deemed to be of indeterminate value.

For non arm's-length transactions of indeterminate value properties, vendors may only receive their actual out-of-pocket costs but the vendor may elect to receive these costs in shares issued at a discount from the market price or at the net price to the treasury of the issuer where the property acquisition is made in conjunction with a further financing.

In arm's-length transactions, the number of allowable vendor shares for properties of indeterminate value is dependent upon the price level at which the shares are traded. The maximum numbers allowable are set out in Section 3.4 of Part VI. For shares of issuers in respect of which there is no market or the market does not exceed $1.00, the maximum vendor consideration for indeterminate value properties is 200,000 shares. If half of this amount (100,000 shares) is provided in the vendor agreement, such shares may be issued to the vendor in four equal payments over a period of 18 months on an automatic basis. If more than 100,000 shares are provided, then the issuance of the shares is in part automatic and in part tied to property expenditures. Where a maximum of 200,000 vendor shares is provided for, expenditures amounting to $400,000 on the property in respect of which the vendor shares were issued must be made to obtain issuance of all of the 200,000 vendor shares. Lesser expenditures must be incurred where more than 50%, but less than the maximum vendor consideration is provided for.

As the market price increases, the total number of vendor shares permitted decreases, however, where the maximum allowable vendor shares is provided for, then in all circumstances $400,000 in expenditures must be incurred for a full issuance. The figure of $400,000 was chosen since the expenditures required to be made must be meaningful but not so prohibitively high as to be discouraging. Exploration results are not a separate criterion since it was thought that expenditures of $400,000 would be made only if the results so warranted.

The rate of issuance of vendor shares when $400,000 in expenditures occurs is as follows: 1/8th of the shares on the date the agreement first provides for their issuance; 1/4 upon the expenditure of a total of $150,000 and the balance of 5/8ths in not more than two equal blocks upon expenditures of $250,000 or $125,000 per block. There is accordingly an incentive in the policy for vendors and issuers to negotiate smaller

vendor considerations in order to obtain the automatic issue mechanism which is not based on property expenditures.

For properties of determinate value an application to the Director is necessary to determine such value. At the time of determination the number of shares, if any, to be placed in escrow must be agreed upon, as well as the terms of escrow release which will then be included in and form part of the escrow agreement. There is no distinction between arm's-length and non arm's-length transactions for properties of determinate value save that the Director may require that non arm's-length transactions be placed before disinterested shareholders for approval. All shares issued for properties of determinate value shall be valued at a price equal to the public offering price if the property acquisition is made in conjunction with a further financing or, in the absence of a further financing at the market price. Where cash consideration is also paid the amount of such payment shall be deducted from the value of the property before any calculation is made of the number of shares issuable in consideration therefor.

Net smelter returns or net profit interests may be reserved by vendors in arm's-length and non arm's-length transactions whether the properties are of determinate or indeterminate value. If the interest is solely a net smelter return then 3% is the maximum total burden permitted, and if the interest is solely a net profit interest 15% is the maximum total burden permitted.

The maximum vendor shares permitted in the policy in an arms-length transaction may be issued for less than a 100% interest. However, the Director may in such circumstances exercise his discretion and require a lesser vendor consideration to be paid. In rendering such a decision, permitted net smelter return royalties or net profit interests are to be disregarded by the Director.

Part VII - Dormant Issuers

In order to encourage the reactivation of dormant issuers, this Part of the policy sets out the tests under which additional base shares may be issued. The maximum number of additional base shares is dependent upon the consolidation ratio that applies in any reorganization. This Part also defines a dormant issuer and a reorganization and sets out the rules under which additional base shares may be released from escrow. In essence, the number of additional base shares may not exceed 750,000 shares where there is no consolidation, and automatic and earned releases are governed by Table B to Part III and footnote 1 thereof which footnote is the expenditures test. The number of base shares is also limited so that the total shareholdings of the principals (all insiders and promoters of an issuer or any associate thereof) after the consolidation and the reorganization must not exceed 50% of the total issued shares of the issuer. This latter provision will ensure that there is a reasonable degree of participation by outside shareholders in reorganized issuers. To encourage reorganizations of issuers formed under the predecessors of this policy, and to permit them to avail themselves of its provisions relating to base shares there is a mechanism to apply to the Director for this purpose in circumstances when the issuer would not otherwise be classified as a dormant issuer.

Part VIII - Dealer Compensation

Three types of offerings are described: an underwritten offering, a best efforts offering and a guaranteed offering, with the minimum underwriting being increased to $100,000. The maximum dealer commission or mark-up permitted is set at 100% for distributions which provide the issuer with net proceeds of 65¢, decreasing to 30% where the net proceeds to the issuer is $2.05. This represents a significant reduction in the permitted commissions and mark-ups in Policy 3-02. Where the dealer commission or mark-up exceeds 30% there is an obligation on the part of the dealer to establish a trust fund for short sales.

As further incentive, dealers may receive a bonus of 15 shares for every 100 shares purchased from the treasury on an underwritten basis or 10 shares for every 100 shares in the case of a best efforts financing. In other jurisdictions, dealer warrants are permitted but it was not thought appropriate that such a scheme be introduced into Ontario. Where the dealer mark-up or commission exceeds 30%, secondary offerings are limited in amount, and the net proceeds which must be received by the issuer is fixed at a minimum of 35%, thereby effectively limiting the price at which secondary shares in such distributions may be sold.

A green shoe option, a dealer compensation option, and a promoter option are permitted which are essentially the same as those permitted in financings under Exchange policies. This was designed to assist in encouraging those Exchange dealers who do not presently deal with junior issuers to use familiar principles taken from Exchange financings. The dealer compensation option will also encourage dealers to be more selective in the issues they distribute since the compensation option will have real value only if the issue is successful. Since issuers subject to this policy are generally at a more preliminary stage of development than issuers qualifying for listing on the Exchange, the terms of the dealer compensation option and the promoter option have been extended from 2 to 3 years.

The policy contains rules which have not previously been the subject of policy statements to prevent conflicts of interest arising in distributions. Where, following the issuance by the Commission of a receipt for a preliminary prospectus, the dealer decides not to proceed with a proposed offering, the dealer is required to send a letter to the Commission and the issuer providing the details of the circumstances which gave rise to the decision on the part of the dealer not to proceed. Such letter will be placed in the issuer's public file.

Part IX - Mergers and Consolidations

This Part is necessary to set out the principles which would apply in respect to earned releases based upon expenditures incurred in both mergers and consolidations.

Part X - Private Placements

Private placements have not previously been the subject of policy direction from the Commission. A private placement is defined to mean an issuance of securities of an issuer from its treasury without the filing of a prospectus with the Commission, in reliance upon an exemption contained in clauses a, b, c, d or p of Section 71(1) of the Act, or Clause 14(g) of the regulation to the Act, or equivalent legislation of another jurisdiction outside of Ontario.

Private placements may be made either pursuant to private agreements, or pursuant to subscription agreements forming part of an offering memorandum. Private placements may be made at a discount from the base price, which simply stated is the weighted average price of the issuer's shares for the five trading days preceding the agreement day. Where the securities which form the subject of a private placement contain a tax incentive, discounts are not permitted.

To prevent private purchasers from taking advantage of information, every private placement agreement must contain a representation and warranty of the placee that the securities are not being purchased as a result of any material fact or information about the issuer that has not been publicly disclosed. If a material change in the affairs of the issuer is announced by the issuer during the two week period following

the agreement day, and if such material change is not directly or indirectly related to or caused by the private placement, the private placement price may in such circumstances be increased.

Placements by private agreement must close within 45 days, and if made pursuant to an offering memorandum within 75 days of the agreement day. There are provisions setting out the circumstances under which the shareholders of the issuer shall be required to approve a private placement. Shareholder approval is required if more than 50% of the securities being sold by private placement are proposed to be purchased by non arm's-length persons, or if the private placement will result in a change in effective control of the issuer, or if the private placement is large, which occurs if it represents more than 50% of the number of the issued shares of the class outstanding before giving effect to the private placement.

Warrants to purchase securities of an issuer may be issued as part of a private placement, provided that the warrants are not issued at a discount, they do not extend beyond five years, and they do not entitle the holder to purchase a greater number of securities than the number originally sold to placees. The longer the term of the warrant the higher must be its exercise price.

If the closing of an issue of securities of an issuer pursuant to a private placement agreement does not occur within the specified times, then no subsequent private placement to a placee who was a party to the terminated private placement may be made for a period of 30 days after the date when the closing was required to have occurred, unless, the failure to close was not due to any act or omission on the part of such placee. This provision is designed to prevent the termination of private placement agreements so as to obtain more favourable pricing.

Part XI - Bonuses for Loans and Guarantees - Finder's Fees

The subject matter of this Part has not previously been the subject of policy direction from the Commission. Junior resource issuers are usually unable to enter into conventional banking arrangements at any time during their initial development. Accordingly, the issue of shares or non-transferrable share purchase warrants in consideration of loans or loan guarantees made by both arm's-length and non arm's-length lenders is permissable.

The following guidelines are provided:

a) the loan and/or guarantee must be necessary and would not have otherwise been granted without a bonus to the lender or the guarantor, as the case may be;

b) lenders or guarantors may receive a bonus of shares having an average current market price value not exceeding 5% of the amount of the funds loaned or guaranteed; and

c) the amount of bonus that may be paid if warrants are issued may not entitle the holder to purchase more than double the number of shares permitted in (b) above.

Bonuses are to be pro-rated on a monthly basis for any period less than 12 months. In circumstances where the ability of the issuer to repay a loan is not evident, and the issuer has given no security to the lender or guarantor, the bonus, if paid in shares may be increased to 20% of the value of the loan or amount guaranteed. A bonus paid in warrants may be similarly increased. The approval of shareholders must be obtained for any bonus given to a non arm's-length lender or guarantor that exceeds 50% of the maximum bonus permitted to be paid by an issuer.

Finder's fees and commissions may be paid to arm's-length persons or companies if the issuer receives a measurable benefit through the

efforts of such persons or companies. The benefit may be in the form of a private financing, acquisition of an asset, the sale of an asset or any other measurable benefit that has in fact been received by the issuer. The number of shares or other consideration to be paid as a fee will vary considerably depending upon the circumstances peculiar to a given situation, and accordingly only guidelines are provided.

There are resale restrictions applicable to shares or warrants issued on account of loans, guarantees, finder's fees or commissions. The payment of finder's fees or commissions to the insiders of an issuer is prohibited. Lenders or guarantors may, however, be acting on an arm's-length or non arm's-length basis with an issuer, and in fact, it is more likely that lenders and guarantors will be non arm's-length persons. Issuers in a strong financial position should not have to resort to the provision of loans other than from conventional sources.

So as not to penalize or discourage non arm's-length persons from making loans or guarantees, it was determined that any resale restrictions applicable to shares or warrants issued as a bonus for loans or guarantees, or as finder's fees or commissions should be subject only to the resale restrictions contained in Section 71(5) of the Act. These restrictions require that the issuer be a reporting issuer for 12 months and that no unusual effort be made to prepare the market in respect of any resales. In such a case, bonus shares or shares resulting from the exercise of warrants may be resold unless the person is a control person.

Part XII - Shares for Debt

The subject matter of this Part has not previously been the subject of policy direction from the Commission. The issuance of shares for the settlement of trade or other accounts which are otherwise normally paid in cash is permitted. The important factors the management of issuers should consider in this type of settlement are that the issuer has no

funds or immediate source of funds or that its funds on hand have been otherwise committed, and that the conversion of debt into equity will place the issuer in a positive working capital position or otherwise enable the issuer to continue as an ongoing concern. The price per share at which debt may be converted cannot be less than the average price for the issuer's shares over the 30 day period preceding the settlement but in any event not less than 15¢ per share.

This Part also sets out the circumstances under which shareholder approval will be required. This occurs where more than 50% of the debt proposed to be converted into equity is owed to creditors who are not at arm's-length to the issuer, or where the issuance of shares for debt in any 12 month period would exceed 5% of the issued capital of the issuer at the beginning of the period.

There are resale restrictions on securities issued for debt. If the creditor is an arm's-length creditor, then the resale restrictions on securities issued for debt are those which apply in Section 71(5) of the Act. These restrictions are described in the summary for Part XI above. For non arm's-length creditors those securities issued in settlement of debt are subject to the resale restrictions in Section 71(4) of the Act, which essentially requires that such securities may not be sold for a period of 18 months after their issuance. The application of these differing resale restrictions is consistent with rulings which have been issued by the Commission in debt settlement cases, and does not represent any change from existing practice.

<u>Part XIII - Reporting Issuers which Purchase other Securities</u>

The subject matter of this Part has not previously been the subject of a policy direction from the Commission. This Part applies to purchases of securities of issuers which are made in the normal market place where securities of the issuer are traded. It does not apply to private

agreements, purchases which are not solely for cash, or takeover bids made in compliance with the Act and the regulation.

If an issuer has been a reporting issuer for more than one year, it may apply surplus funds of up to $150,000 for the purchase of securities of other issuers providing the two reporting issuers do not have a common insider. If there is a common insider additional restrictions apply, namely: the purchase must be for investment purposes only and the sale of such securities may not occur within 12 months without the prior approval of the Director.

Prior to commencing any such purchase program, a letter shall be filed with the Director by a director or officer of the issuer setting out among other things, particulars of the purchase program, the investment merit of the proposed purchase, and that the directors and other insiders have been notified of the purchase program and advised that they should not buy or sell securities of the target issuer during the time that purchases are being made by the issuer until after the publication of an announcement of the conclusion of the purchase program. In this regard, the issuer must issue a press release at the commencement of the purchase program informing the public generally of the merit and risk of the proposed purchase, the duration of the purchase program, the maximum number of shares to be purchased, the maximum number of dollars to be spent, the current expenditures and plans of the issuer and the target issuer, any direct or indirect interest of the issuer and its directors and insiders in the target issuer, and the market place where securities of the target issuer are traded.

It is generally thought that while it may be appropriate in certain circumstances for issuers to purchase the securities of other issuers, their prime activity ought to be related to the carrying out of exploration programs on their own properties or on properties optioned from

others. Accordingly, the use of surplus funds for activities related to the purchase of securities of other issuers is strictly limited.

Part XIV - Share Consolidations

From time to time, the management of issuers determine that it is in the best interest of the issuer to effect a share consolidation. In the past, however, some share consolidations have been so severe as to essentially deprive the existing shareholders from any future voice in the issuer's affairs.

A reporting issuer proposing a share consolidation is now required to issue a news release disclosing the proposed consolidation not later than the date that information is mailed by the issuer to its shareholders in connection with the meeting called for the purpose of approving the consolidation. Such news release should disclose the proposed consolidation ratio, the number of shares outstanding before and after the consolidation, the date of the shareholders meeting, the reasons for the share consolidation, and any other actual or proposed material change.

The prior approval of the Director will be required for any share consolidation which reduces the number of issued shares of a reporting issuer to less than 750,000, or for any share consolidation if the effect of such consolidation either alone or in combination with any prior consolidation within the preceding 12 months, would have the combined effect of consolidating the issued capital of a reporting issuer on a basis greater than 1 for 10. It is anticipated that the combination of these latter two provisions will mitigate the severity of consolidations which have occurred in the past.

Part XV - Acquisitions of Assets from Insiders

The subject matter of this Part has not previously been the subject of policy direction from the Commission. In this Part the term "acquisition" means the acquisition of a non resource property or interest therein. The acquisition of a resource property is covered by the provisions of Part VI. Where an issuer proposes to acquire an interest in a non-resource property or other asset directly or indirectly from an insider the following provisions apply:

a) if the interest in the property or other asset has been beneficially owned by the insider for a period exceeding one year, the acquisition may be made at its fair market value even if that exceeds the insider's cost;

b) if the insider's interest has not been beneficially owned for the period exceeding one year, then the consideration that may be paid by the issuer is limited to the insider's out-of-pocket expense relating to the acquisition and maintenance of the interest; and

c) shareholders must approve the acquisition under either (a) or (b) above.

Application may be made to the Director to permit the payment of a greater consideration, if the insider acquired his interest in the property or the asset prior to the time he became an insider of the issuer, or if at the time the insider acquired his interest the issuer did not have the financial resources to acquire the interest.

The purpose of these provisions is to prevent conflicts of interest which arise in non arm's-length transactions when insiders of an issuer deal with the issuer. The period of one year is consistent with the rules of the Exchange in similar transactions.

Part XVI - Management Remuneration

This Part deals with the payment of both cash consideration to the management of issuers, and the granting of management stock options. The maximum monthly cash fee that may be paid or payable in the aggregate to the management of issuers which have no cash flow or immediate source of funds, other than by public subscription, is limited to $3,000. This is a new provision.

Issuers may remunerate directors and officers by granting stock options or creating stock option plans. The basic features are:

a) the options are non-transferrable;

b) the options are exercisable within a period of five years;

c) the aggregate number of securities reserved for issue shall not in the aggregate exceed 10% of the issuer's securities outstanding from time to time;

d) the exercise price is limited to a specified discount from the market price;

e) options to any one individual may not exceed 50% of the maximum number of options permitted in the aggregate; and

f) the grant thereof must be made in compliance with a previous blanket ruling of the Commission dealing with trades by issuers in options to senior officers and directors.

Except for the rules contained in the blanket ruling of the Commission, management stock options were not previously the subject of a policy decision of the Commission. By fixing the amount of management

remuneration and the terms of management stock options it will now be possible to know precisely the maximum amounts permitted in these cases.

Part XVII - Financial Assistance from Officers and Directors

From time to time issuers require financial assistance in small amounts and the only persons who have sufficient interest to provide such assistance are normally the directors and officers of the issuer. In order to facilitate the provision of small amounts of funds for issuers at relatively nominal cost, new policies have been established.

The directors and officers and the associates of the directors and officers of an issuer may purchase securities of an issuer without shareholders approval, and without the necessity to make an application to the Commission for a ruling under Section 73(1) of the Act provided:

a) the aggregate acquisition cost of securities purchased pursuant to Part XVII during any 12 month period by all of the persons mentioned above does not exceed $50,000;

b) the securities are subject to the resale restrictions in Section 71(4) of the Act; and

c) the price is not less than the base price minus the discount allowed in the case of a private placement.

The proceeds from such sales may be used for working capital purposes. Since the amounts involved in this type of issue are relatively small, the protections afforded by the obtaining of shareholder approval to such transactions when compared to the cost of obtaining such approval were not considered to be justified.

Part XVIII - Adjacent Resource Properties and Retained Interests

This Part is intended to deal with non arm's-length transactions between issuers and vendors of resource properties where the vendor wishes to retain an interest in the property in excess of permitted royalties or net profit interests, or where the vendor retains an interest in adjacent or contiguous properties. Such transactions may not be in the public interest where the full risk of exploration is undertaken by the issuer. Agreements between non arm's-length reporting issuers are not subject to Part XVIII.

A non arm's-length vendor may retain an interest in a resource property in excess of the permitted royalty or net profit interest if the interest retained is a full participating interest.

A non arm's-length vendor may retain an interest in an adjacent or contiguous resource property if:

a) the vendor retains no interest in the property transferred to the issuer in excess of permitted royalties or net profit interests;

b) the property transferred comprises not less than approximately four square miles (64 claims in Ontario);

c) the issuer was offered and declined the opportunity to acquire the contiguous or adjacent property; and

d) the vendor did not take part in the decision of the issuer not to acquire the adjacent or contiguous property.

Properties or interests therein acquired by a vendor within 6 months after completing a non arm's-length agreement with an issuer which, if owned at the time the agreement with the issuer was made would be treated as adjacent properties, must be offered to the issuer.

Part XIX - Miscellaneous

This Part is intended to deal with all miscellaneous matters which can be expressed in simple short statements of policy. There are 14 such matters.

Part XX - Powers of the Commission

This Part simply restates the existence of the Director's discretion, that the Commission may review any decision of the Director or a Deputy Director, and that the policy statement will be reviewed from time to time to monitor the effectiveness of its operation.

Recommendations

The recommendations of the Committee are that:

a) the Securities Policy for Resource Issuers prepared by the Committee be adopted by the Commission in its present form;

b) the Technical Review Committee referred to in section 1.6 of Part XIX of the proposed Securities Policy be established forthwith;

c) the Standing Liaison Committee referred to in section 1.3 of Part XX of the proposed Securities Policy be established forthwith;

d) the Securities Policy be administered and interpreted so as to encourage promoters and vendors to do business in Ontario;

e) if the Securities Policy for Resource Issuers recommended by the Committee is to be truly effective it is essential that an efficient and inexpensive market place exists in Ontario where the securities of resource issuers can be traded. To effect such purpose, an industry/government task force should be immediately established to up-grade the Canadian Over-The-Counter Automated Trading System (COATS) system to a true trading system rather than its present status as a simple quotation and reporting system.

f) the exemption by the Toronto Stock Exchange of issuers applying to list on the Exchange from certain parts of the Exchange's Founder Stock Policy Statement, on the basis of time elapsed from the initial prospectus distribution, require only a 12 month waiting period where the issuer has complied with the Founder Stock Model of the Securities Policy.

SECTION III

ECONOMIC FRAMEWORK

Economic Impact

The value of non-fuel minerals produced in Canada in 1985 is estimated at $13.1 billion -- a $0.1 billion increase over 1984.

The value of non-fuel minerals produced in Ontario is estimated at $4.4 billion or 33.6% of the national figure in 1985 -- representing a slight increase over the 1984 value of $4.3 billion.

In 1984, Ontario's non-fuel mineral production accounted for 2.9% of the Gross Provincial Product and 25% of the value of the province's exports. However, if mining were integrated with primary metals production, metal fabrication and non-metallic mineral products, the contribution of the four related industries would have amounted to 20.1% of Ontario's Gross Provincial Product in 1984.

The value added by the output (i.e., geological information) of the mineral exploration segment (i.e., a service industry) is not known. However, the cost of general or grassroots exploration in Ontario in 1984 was $55.9 million. This represents about 20.7% of the total spent on all exploration and mine development in Ontario that year (i.e. $270.3 million) or 1.3% of the value of non-fuel mineral production in Ontario that year (i.e. $4.3 billion).

The Canadian mining industry (including metal, non-metal and coal mines, refineries and smelters but excluding the mineral exploration segment) provided direct employment for 156,650 in 1984.

The Ontario mining industry (as defined above) provided direct employment for 37,000 men and women in 1984 mostly in Northern Ontario.

In addition, it is estimated that the minerals and metals-based semi-fabricating industry employed over 50,000 Ontario residents and contributed an additional $4 billion to the Ontario economy that year.

Canadian Mining sector productivity showed a significant downtrend through the last two decades but this trend appears to have been reversed during and after the severe recession in the early 1980's. Much of this recent productivity gain may be absorbed by increasing government-mandated costs (e.g., workers' compensation, pollution abatement, land reclamation and community assistance) and may not be available to invest in newer, productivity-increasing technologies or new domestic mining ventures.

Economic Development in Theory and in Practice

There is a common belief in society that new businesses evolve from or are initiated by large wealthy corporations; nothing could be further from reality. Virtually all new development originates in small companies and the minds of individuals. More than 80% of all new businesses started in Canada fail before their third birthday. Notwithstanding, it should be noted that during the current recession almost all new jobs (about 85%) were created by small start-up enterprises.

New growth in an economy is not accidental. The various complimentary factors of production must be combined by deliberate efforts of entrepreneurs aiming at specific ends and motivated by their urge to improve their state. In the words of Joseph Schumpeter[1], "the entrepreneur is the bearer of the mechanism of change." In eliminating actions of the entrepreneur, one eliminates the driving force of the whole market process. There is no substitute in our economy for the role of the entrepreneur.

Only through capital investment does society gain new economic development, and through economic development social objectives are achieved. In the world of economics, development implies change; change can only take place through innovation, investment and the assumption of great risks. In this scheme of things, innovation implies economic development and economic development cannot take place without innovation: "without development there is no profit, without profit there is no innovation" (Schumpeter).

Schumpeter defined the economic renewal phenomenon as the "Process of Creative Destruction... the same process...that incessantly revolutionized the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists of and what every capitalist concern has got to live in."

Rapid and profound technological changes are affecting economies in every industry and every nation in the world. Within the past decade earth sciences have been revolutionized by theories of continental drift and ore genesis which have completely altered geological concepts and knowledge. New ideas are abundant; opportunities for the discovery of new mines are virtually boundless, limited only by financial constraints on sources of risk capital.

Federal/Provincial policy makers and legislators, in devising tax policy, must accept as fact that our economy functions in an evolutionary environment in a highly competitive world. Innovation in the productive apparatus of industry, largely by new businesses which exploit rapid and continuous changes in technology, provides the driving force of the market process. If we are to rejuvenate the Canadian economy, federal and provincial tax and regulatory policies must provide an investment environment that encourages high risk equity investment.

Risk and the Entrepreneur

The entrepreneur's energy and willingness to assume risks and responsibilities enables an enterprise to be launched. In the Canadian exploration field it has been normal to equate the terms 'entrepreneur' and 'promoter' and while economists differentiate these roles, for our purposes we can assume they are synonymous. The following quotation from Mises[2] describes the entrepreneur/promoter:

> "It is to be admitted that the notion of the entrepreneur/promoter cannot be defined with prexeological rigor. However, economics cannot do without the promoter concept, for it refers to a datum that is a general characteristic of human nature that is present in all market transactions and marks them profoundly. This is the fact that various individuals do not react to change in conditions with the same quickness and in the same way. The inequality of men, which is due to differences both in their inborn qualities and in the vicissitudes of their lives, manifests itself in this way too. There are in the market pacemakers and others who only imitate the procedures of their more agile fellow citizens. The phenomenon of leadership is no less real on the market than in any other branch of human activities. The driving force of the market, the trend toward unceasing innovation and improvement is provided by the restlessness of the promoter and his eagerness to make profits as large as possible."

Both Mises and Schumpeter state that the entrepreneur is never the risk bearer. In instances where an entrepreneur provides a part of the capital, the risk falls on him as capitalist or as a possessor of goods, not as an entrepreneur. This may appear as a fine distinction, however, Mises goes on to say: "Let us try to think the imaginary construction of a pure entrepreneur to its ultimate logical consequences. The capital required for his entrepreneurial activities is lent to him by the

capitalists in the form of money loans... But even if the entrepreneur is in a position to provide himself a part of the capital required and borrows the rest, things are essentially no different. To the extent that the losses incurred cannot be borne out of the entrepreneur's own funds, they fall upon the lending capitalists, whatever the terms of the contract may be. A capitalist is always virtually an entrepreneur and speculator. He always runs the chance of losing his funds. There is no such thing as a perfectly safe investment."

To attract funds to high risk equity investment, legislators must create an economic environment that fosters entrepreneurial innovation and initiative; risk/reward expectations are vital to the process. The possibility of acquiring great rewards for great risk must extend beyond the entrepreneur to those who provide the initial start-up capital. The possibility of gaining high profits acts as a stronger incentive than is rationally justified by an investor's expectations.

Disproportionate individual success such as that achieved at Hemlo and earlier at the Horne Mine, Kidd Creek and elsewhere in Canada, has a valid function in mining exploration. The potentially great bonanza is the substance of dreams that constantly drive Canadian prospectors to impossible heights of achievement. When, through excessive taxation, these exceptional deposits are reduced to the level of the ordinary, much of the reason for seeking them is lost.

Sources of High Risk Exploration Money

High risk ventures must be financed by permanent capital, i.e. equity or retained earnings rather than debt. Realistically, borrowed funds stand little chance of ever coming back in high risk ventures. Invariably, the entrepreneur must finance his enterprise with equity provided largely through the savings of individual investors.

It is appropriate to remember Adam Smith's 200 year old dictum that national as well as private wealth derives from the initiative and private ingenuity of individuals.

Tax and regulatory policies for decades favoured large established corporations over individuals and new businesses, debt over equity, safety over risk, quick payoffs over long term opportunity, and redistribution over capital formation and investment. The consequences were predictable; equity investment in high risk situations fell precipitously, while at the same time individual wealth accumulations, comprised largely of safe non-productive fixed interest securities, stand today at record levels.

Wealthy investors, venture capital funds and other financial institutions and intermediaries rarely, if ever, participate in such very risky situations as hard rock exploration. Generally speaking the risk component of investment is borne by middle-class wage earners, próféssionals, etc. In order to free funds for higher risk equity investment, compelling tax incentives must favour this class of risk-taker, the group from which is drawn most of society's economics activists. This profile of the 'penny' stock trader is confirmed in an appendix to the Kalymon Report.

The Mineral Supply Process[3]

"The process of attaining economic production of a mineral consists of a multistage series of activities by which minerals are converted from unknown geological resources to marketable commodities.

"The physical occurrence of mineral deposits in nature and the demand for mineral commodities in the economy provide the basic stimuli for mineral supply. Favourable perceptions of exploration geologists and

market researchers regarding these geological and market factors combine to guide the selection of environments for exploration.

"The mineral exploration phase is a sequential information-gathering process. In the primary exploration stage, potentially favourable areas of land are initially selected within an environment of interest. These areas are then subjected to a series of geological, geophysical and geochemical tests. The successful result of the primary exploration is the discovery of 'mineral occurrences'. At this stage the ultimate size and value of each mineral occurrence is unknown.

"The mineral occurrences discovered provide justification for the second stage of exploration when information is provided for estimating the size, grade, and physical characteristics of the discovery relevant to mineral or metal recovery. The successful result of this delineation is the definition of possible economic discoveries for evaluation.

"When sufficient delineation has been completed, a decision is made which determines whether a mineral deposit should be developed to production. If the characteristics of the delineated deposit provide justification for mine development, what is perceived to be an economic mineral deposit is the end result of mineral exploration.

"The development phase establishes productive mining and mineral processing capacity. Processing is required to upgrade the mine product (ore) to a mineral 'concentrate' for transportation and sale. Thus, the construction of processing facilities is carried out in phases with mine development. The installation of a mill at a mine site may be required or a common processing facility may be used to treat ores from a number of mines in a region.

"When a mine has been developed and related processing facilities constructed, the production phase commences. The mining phase may

include the stripping of waste for open pits, the preparation of stopes for underground mining, the development of ore reserves, drilling, blasting, materials handling to the processing facilities, the filling of mined-out stopes, and associated technical and planning services. For base metal operation, the processing stage usually includes crushing, grinding, flotation, drying, tailings disposal, and the loading of concentrate products for shipment.

"The end result of the mineral supply process is the production of metal concentrate at the mine site to satisfy market demand. Market demand conditions include product transportation, smelting and refining activities, as well as the sale of metal in the ultimate market.

"The mineral supply process is dynamic. First, the market demand for mineral commodities changes with time due to a number of factors, including: varying requirements of existing end uses; changes in the properties and relative costs of substitute materials; the development of new product markets; and modifications in transportation, smelting and refining conditions. Secondly, depletion, the physical exhaustion of mineral deposits, is inherent in their exploitation. Thus, continual exploration is required just to sustain the existing level of mineral production. Furthermore, exploration, guided by geological concepts and skills, is to some extent a systematic process in the long term which, generalizing through the random and unexpected outcomes associated with exploration's high risk, tends to detect first those deposits that are largest, highest grade, closest to surface or closest to market. Consequently, the best, easiest-to-find, deposits will on average be discovered, developed and exhausted first. Lower quality, smaller, or harder-to-find deposits remain for the future. Thus, depletion causes the cost of mineral supply to rise over time. Fortunately, there is a third offsetting dynamic force which is also at work: advances in technology. Such advances may include more efficient and extensive exploration techniques, and improved mining and mineral processing methods. Advances

in technology act to reduce the cost of mineral supply. The resultant of this market, depletion and technological forces determines whether the economics of mineral supply are in fact deteriorating or improving with time.

"Mining productivity may be evaluated in terms of the economics of this mineral supply process. This provides a basis for examining the effects of the geological characteristics embodied in the process of productivity change."

[1] J.A. Schumpeter, Theory of Economic Development, Trans. Opie and Redvers (New York: Oxford University Press, 1961).

[2] Ludwig Von Mises, Human Action: A Treatise on Economics, 3rd Revised Ed. (Chicago: Contemporary Books Inc., 1966).

[3] This section is quoted from Brian W. MacKenzie, "Geological Aspects of Mining Productivity: Canada's Base Metal Resources," (Kingston: Centre For Resource Studies, Queen's University Press, 1985), Technical Paper No. 6, pp. 15-18.

SECTION IV

A PRACTITIONER'S 20 YEAR REVIEW OF ONTARIO POLICIES AFFECTING JUNIOR RESOURCE COMPANIES

Introduction

At the present time laws governing Ontario securities have evolved into one of the most highly sophisticated securities laws in the world, far surpassing in scope and detail all free world jurisdictions except for the United States, after which Ontario's laws are patterned. The highly sophisticated nature of these laws, with their accompanying inflexibility, has resulted in a relatively scandal-free capital market in Ontario, but has had adverse effects on a former world class exploration and development industry and has resulted in reduced exploration activity in Northern Ontario. The evolution of these laws over the past twenty years has, among other factors, severely impacted upon the competitive quest for funding for the exploration industry in Northern Ontario relative to Quebec, British Columbia and several other Canadian provinces. Simply put, Ontario is no longer competitive in the quest for risk financing. The lack of risk financing affects not only the economy of Northern Ontario but also of Southern Ontario, even though a significant portion of the British Columbia risk capital is raised in Southern Ontario. Clearly, the risk reward ratio forces the modern explorationists to seek an environment which will maximize his return on the high risk dollars he spends. At the present time, Ontario is not competitive with several other Canadian provinces and several American states, for either the raising or the spending of exploration funds.

History

Windfall Scandal

Prior to the Hemlo discoveries in 1981, the last major Canadian mineral exploration success story was the discovery by Texas Gulf Sulphur Company (now known as Kidd Creek Mines Ltd.) of a significant silver and base metal mine in the Timmins Area in 1964.

The size of the deposit and the mystique and excitement created by its discovery captured the imagination of the Canadian public. Television exposure given to the discovery at the time created heavy speculator interest in a number of junior exploration and development companies which had properties in the immediately surrounding area.

One such company, Windfall Oils and Mines limited, had its stock price soar from approximately $0.50 per share to $5.50 per share in a two week period pending announcement of the results of its drilling programme. When it was ultimately publically disclosed that Windfall had not encountered mineralization of economic significance, stock prices collapsed, securities regulators investigated and found that the drilling results were known to the principals of Windfall prior to the public announcement and that several persons had been trading on the basis of publically undisclosed information for their personal benefit.

This scandal, which attracted international attention and reflected adversely on the Ontario and Canadian capital markets, ultimately led to the Ontario Government appointing Mr. Justice Arther Kelly to conduct an inquiry into the trading in Windfall shares. Mr. Justice Kelly released his report in September, 1965 which condemned the activities of Windfall's promoters and ultimately led to significant changes in Ontario securities legislation; which changes, were designed to ensure that a similar situation could not reoccur in the future.

Securities Act of 1967

The Windfall Inquiry led directly to the enactment of the Securities Act of 1967 which was a major departure from the securities laws which existed in Ontario to that time. The 1967 Act was generally patterned after the 1933 and 1934 Securities Acts of the United States and had the effect of dramatically expanding the regulatory controls over the securities industry in Ontario. The regulations and policies promulgated thereunder led to an immediate decline in the then active junior resource financing industry in Ontario. Some have expressed the view, in hindsight, that the legislation was an over-reaction or overkill of the industry based on one bad apple in the barrel. Clearly, the Windfall Scandal provided the reason to generally overhaul Ontario securities laws and bring them abreast with the great strides that had been made three decades earlier in the securities laws governing American capital markets.

Because the regulators were reacting to an obvious abuse of the existing system and had as their prime concern the protection of the public from stock fraud or manipulation, they brought forward rigid, structured legislation for the financing of junior resource issues which did not take into account the uniqueness of the junior resource industry or the important role it played in the Canadian and Northern Ontario economies. This ultimately led in 1976 to Ontario Securities Commission Policy 3-02 which created an artificial separation of the functions of the prospector/vendor, promoter and underwriter. The separation of these functions was designed to limit the return each group could make in any financing and imposed selling prices and therefore economic returns on each group which had no bearing, in most cases, to market conditions.

The effect on financing in the junior resource industry in Ontario was immediate, catastrophic and led to a rapid decline in the number of financings undertaken in Ontario; which in turn, contributed along with

several other factors to the immediate slow-down of mineral exploration and development activity, not only in Ontario, but throughout Canada.

This tightening of regulatory control over the junior exploration and development business, together with the effects of the Foreign Investment Review Act and changes in federal and provincial tax laws insofar as they related to mining taxes, capital gains and the prospectors' exemption, combined to provide an almost lethal blow to this once great industry. The pendulum swung in favour of strict regulatory control, totally ignoring the economic consequences. In today's terms, the loss to investors as a result of the Windfall affair would be inconsequential. In 1964 terms, the scandal was sensational and almost resulted in the death of an industry.

Decline in Activity in Ontario - Increase in Activity in Vancouver and Montreal

The legislation which followed in Ontario provided for a rigid, patterned financing structure which lacked the flexibility necessary to accommodate the infinite diversity of properties requiring financing. Apart from the junior resource industry, all other interested parties prefer a codified system because it reduces the possibility that an aggrieved party can attack a decision on the grounds of discrimination or improper exercise of discretion and gives the public the perception that the particular transaction being turned down does not strictly meet the requirements. The net effect of the legislation was that not only did it have an immediate detrimental effect on the fringe operators in the business but it provided a major impediment to bona fide resource professionals who needed a flexible financing system to accommodate the substantial risks of the exploration business. There is no doubt that the baby got thrown out with the bathwater.

Immediately, a significant number of promoters moved the base of their operations to either Vancouver or Montreal because British Columbia and Quebec had not at that time adopted similar legislation. Over the next ten years the number of financings of Ontario junior resource companies involved in exploration and development activity decreased correspondingly. Not only was the junior resource industry in Ontario dying, but the major mining companies, which historically had fed off of the discoveries made by the juniors, were also in trouble by 1975 to 1978 because of a lack of smelter feed for their smelters, low mineral prices, and an adverse tax system at both levels of government. Professor Basil A. Kalymon et al in their study entitled Financing of the Junior Mining Company in Ontario, dated May 1978, stated that the decline in the level of financing provided to the junior mining sector in Ontario has been devastating. The total level of funds raised in public markets in 1978 had fallen in real terms to less than 15% of the level of funds provided, on the average, in the decade prior to 1960. In explanation the study said "no factor other than the conditions prevailing in our capital markets can offer much credibility."

The Kalymon Study proposed that a major restructuring of the fund-raising process for this industry was needed if its full social contribution potential is to be realized. The Kalymon Study made four major recommendations.

(a) Create a new stock exchange for trading junior speculative securities, either in association with the TSE or as a totally independent computerized trading market;

(b) Ensure that regulatory bodies disclose information fully and timely, and allow the financial markets to evaluate the merits of individual investments strictly according to their own market criteria.

(c) Ensure that the OSC maintains an "evergreen" form of essential prospectus information; and

(d) Modify the current regulations governing the structure of underwriting agreements as follows:

(i) remove the artificial separation of the promoter and the underwriter;

(ii) permit options at escalating prices;

(iii) set selling prices by market conditions, rather than by arbitrary pricing limits; and

(iv) relate underwriting prices to market prices once a trading market has evolved.

Not only was no action taken with respect to the above noted recommendations by the OSC at the time; but the Kalymon Study and all subsequent studies were almost totally ignored by Ontario securities regulators.

Eight Years Later

In 1974, with the entire Canadian exploration and mineral industry in trouble, industry representatives spoke out against the governmental regulations regarding taxation, foreign investment, and environmental and securities matters. In his speech to the Canadian Club in Toronto, on February 3, 1975, "Canada's Mining Industry - Where Do We Go From Here?" Mr. Alfred Powis, the President of Noranda said:

> "So the answer to the question, 'Where do we go from here?' is 'Nowhere'. The industry's mood is one of frustration and despair.

What we face is a significant decline in the level of mining's contribution to the Canadian economy. Present circumstances won't force the shut down of many existing operations, but few new projects which aren't government sponsored or artificially induced will be undertaken in most of Canada in the future. The level of exploration will be inadequate to replace, much less enlarge, the reserves being extracted. Nor can this stagnation and decline be readily reversed."

Pressure brought by the Canadian mineral exploration and financial communities led to the OSC conducting the Study of the Financing of Exploration and Development Companies, which culminated in public hearings held by the OSC under the chairmanship of Mr. Arthur Patillo, Q.C., in April, 1975.

At this hearing, the finance industry presented numerous briefs regarding the financing of all sectors of the mining industry including exploration and development. There is no doubt that securities regulators and politicians in Ontario were made fully aware at this time of the decline in the junior resource industry in Ontario and the disastrous effects this decline was having in Northern Ontario and on the Canadian mining industry as a whole.

OSC Policies 3-02 and 3-03 (October 1, 1977)

As a result of the 1975 public hearings, the OSC came forward with Policy 3-02 and 3-03 in October, 1977 which was purportedly designed to take into account the problems raised during the public inquiry. Instead of fostering junior resource financing in Ontario, Policy 3-02 had the opposite effect on the industry. Its financing structure was rigid and tailor-made for broker-dealer type transactions. Very few junior resource financings were carried out in subsequent years in Ontario other than through broker-dealers. At that point, the remaining bona fide

professional resource developers who had been hanging on in Ontario hoping that there would be change in the OSC's attitude, then migrated westward with their deals.

At the same time, the TSE was not encouraging new junior resource listings because it was promoting its image in the international financial community as a senior stock exchange. The TSE clearly was abrogating its role as a marshaller of Canadian capital for the junior resource industry in favour of a more international stature. It can be truly said that the TSE's position on the junior resource financing industry in 1975 was passive and that it was doing nothing to encourage the OSC to relax its policies or design policies which encourage junior resource financing. Indeed, the TSE did not even file a brief at the 1975 OSC public hearings.

Meanwhile In Vancouver

Most of the speculative activity in junior resource exploration and development stocks eventually migrated to the Vancouver Stock Exchange where it was welcomed with open arms. As a result, the VSE grew in size and the Vancouver brokerage community flourished. Not only was the VSE raising funding in British Columbia for resource issues, but risk capital gravitated to it from all over the western United States, Europe, Southern Ontario and the rest of Canada. Its markets became so active that it became the main source of junior resource risk capital in Canada.

This increased activity was, however, not without it problems and a number of investigations and minor scandals took place on the VSE during the 1970's. In 1981, the Hemlo gold deposits in Northern Ontario were discovered and the money for their discovery and pre-production development was raised on the VSE. As a result of this discovery, the media coverage given to it, and the fact that a large number of junior development companies listed on the VSE had claims in the immediate Hemlo area,

financing activity on the VSE reached frantic proportions. Toronto-based brokerage houses initially looked at this discovery with a degree of smugness and skepticism and waited for the bubble to burst. Fortunately, such was not the case and the initial discoveries held up during pre-production development drilling and proved to be ultimately larger than initially envisaged. Hundreds of millions of dollars were raised by equity and back financing to bring these deposits into production. This, in turn, led to many additional financings through the VSE, and the Vancouver brokerage community prospered.

Meanwhile, in Ontario

In Toronto, the general economic recession Canada was suffering at the time, led to significantly lower trading volumes on the TSE and as a result, a number of Toronto brokerage firms were only marginally profitable. At this time political and other pressure was brought by the Ontario government to have the TSE and OSC develop policies which encouraged junior resource financing. As a result, Mr. Henry J. Knowles, Q.C., Chairman of the OSC, at that time appointed a committee of prominent natural resource professionals to review the existing legislation and "arrive at specific proposals, if feasible,... for changes in the regulations and policies that will go as far as possible to meet the concerns of industry representatives but in a manner that will continue to enable the OSC to properly carry out its mandate". In addition, the TSE formed its Market Access Committee which was charged with the responsibility of developing TSE policies to encourage capital formation by junior companies.

Apple/Hume/McAdam/McCartney/Menzel Study (April, 1980 to September, 1981)

This committee produced a report dated September 30, 1981 in which it concluded that the promotion and financing of junior natural resource companies should be encouraged in Ontario because they are socially

useful. The committee made eight major recommendations dealing with all facets of junior resource financing and suggested that new policies be drafted which should be kept as simple as possible and published, so that all in the industry would be aware of them. One of the committee's most interesting observations was that the committee believed, like the Kalymon Study, that it was highly desirable that a junior speculative exchange be established in Ontario and recommended that the TSE be encouraged to sponsor a junior exchange or at least the equivalent of a published quotation system similar to the National Association of Securities Dealers Automatic Quotation System in the United States because "it would serve a useful social function", and, at the same time, not adulterate the standing of the TSE. The committee decried the loss of business from Ontario to the VSE from the points of view of junior mining companies, investors in Ontario and the Ontario securities industry.

TSE Develops Proposal to Foster Capital Formation for Junior Resource and Industrial Enterprises (September, 1980 to January, 1982)

The TSE Market Access Committee commended a study relating to fostering capital formation for junior resource and industrial companies which was designed to encourage listings on the TSE. A number of specific recommendations came from this report, some of which were as follows:

(a) reduce listing requirements slightly (minimum working capital and number of shareholders);

(b) place considerable weight on the financial responsibility and credibility of the principals of these companies;

(c) recommend that OSC Policy 3-02 be fully revoked or at least not made applicable to companies simultaneously seeking a listing on the TSE and undertaking an initial public financing;

(d) streamline the Statements of Material Facts;

(e) establish a separate section on the TSE for junior companies; and

(f) establish a mechanism whereby a company could undertake a distribution to raise its initial public capital under a Statement of Material Facts fixed price offering using the TSE's facilities prior to listing.

OSC Repeals Policies 3-02 and 3-03

As a result of the foregoing, the OSC recognized that Policies 3-02 and 3-03 were specifically designed to foster broker-dealer type deals, and in effect, prohibited companies from seeking initial financing through TSE member firms. The OSC repealed Policies 3-02 and 3-03 and, once the TSE published rules, undertook to implement the TSE's proposals and to consider what policies it required in respect of financing of junior natural resource companies. In repealing Policies 3-02 and 3-03, the OSC indicated that it would use its discretion in dealing with prospectus filings of junior natural resource companies and for requests for consent to the transfer or release of escrowed shares and indicated that it would not be bound by former policies of the OSC in this regard. At the same time, the OSC indicated that it would use former Policies 3-02 and 3-03 as guidelines for the exercise of its discretion under the Act.

Disagreement between OSC and TSE over Ultimate Reviewing Authority

A difference of opinion then developed between the OSC and the TSE with respect to the ultimate reviewing authority over Statements of Material Facts. This disagreement took place in the Fall of 1982 and was publicly reported in the newspapers at that time. In December, 1982 an

OSC hearing was held to resolve the issue and the Commission ruled that it was not prepared to and could not legally delegate its reviewing power to the TSE.

The TSE's New Policy

As a result of the foregoing the TSE established, effective May 26, 1983, a policy statement relating to distributions through its facilities by means of an Exchange Offering Prospectus ("EOP") and a new policy entitled "Founders Stock Policy Statement". Both of these policies were specifically designed to encourage listings and to provide a means whereby initial financings could be carried out on the TSE and the companies financed and listed immediately following such financing. In hindsight, it is also fair to say the the Founders Stock Policy was complex and not easily understood by very many people. As a result of this policy, persons contemplating the listing of a junior issue on the Exchange often has to negotiate with TSE staff on a one-to-one basis. The EOP was essentially an up-graded Statement of Material Facts which contained rescission rights. In addition, the EOP was to be reviewed for initial comments by TSE staff and cleared more quickly than had it been an initial filing with the OSC, even though the OSC retained ultimate authority to approve of the form and content of the document.

In the Summer of 1984 the TSE fine tuned its policies in this connection and obtained an OSC order relating to its proposed changes.

Present Situation (Spring of 1986)

OSC Policies

Since the repeal of Policies 3-02 and 3-03 on December 24, 1982, no replacement policies have come forward from the OSC. It is our understanding that a policy review of junior resource financing was underway

at the OSC on a priority basis but it has been deferred pending the release of this report. In the interim, financings are being looked at on a case-by-case basis, with the former repealed policies as guidelines. The present system is working fairly well, although from the public's point of view it has the distinct disadvantage of not having any fixed written policies to be complied with and leaves filings subject to change at the discretion of OSC staff.

At present, most financing of junior resource issues in Canada is done by means of flow-through shares, a significant portion of which are done on a private placement basis, the mechanism for which is simple and straight forward and already provided for under the existing Securities Act and TSE rules.

TSE Policies

TSE staff, recognizing that the Founders Stock Policy was too complex and needed revision, recently simplified it. Since the number of companies taking advantage of EOPs had not reached the number that they originally anticipated, TSE staff expended every effort to ensure that the clearance time for EOPs was substantially reduced compared with that of the OSC for prospectuses. As a result, the cost of EOP issues, when compared with a full OSC prospectus, dropped substantially to the $25,000 - $35,000 range, primarily as a result of reduced time spent drafting a prospectus and lower printing costs. Even though new EOPs are not being done with the frequency that was originally envisaged, issues that had previously been listed on other exchanges and that have matured to the point where they want access to a larger market are still applying for listings. The TSE's Market Access Committee has recently introduced major changes to improve the EOP financing mechanism. The TSE now has "sole reviewing power" in Ontario for companies that have been listed for one year.

There is no doubt that the TSE has now adopted a positive attitude toward junior resource financings and has exhibited a competitive attitude in seeking the listing of junior resource companies issued with quality properties and competent management.

The Net Effect

Although the OSC and the TSE now wish to encourage junior resource financing in Ontario, their policies since 1967 have had the exact opposite effect. The primary complaint against these policies is that they are too structured and rigid and do not provide the flexibility required by the junior resource industry. In addition, present policies, or lack thereof, are such that the mining entrepreneur must seek costly advice from lawyers and other professionals who have had experience in dealing with the OSC and the TSE. Every transaction will have some aspects which involve direct negotiation with the regulatory authorities on a case-by-case basis.

Result

As a result of the foregoing, a relatively scandal-free securities market exists in Ontario at the present time and this has continued for the past twenty years. In addition, it is a securities market in which a bona fide professional resource developer with quality properties and in some cases a great deal of patience can gain access to a legitimate securities market provided there are funds available. It is a fair statement to say that through a series of circumstances we have arrived at a system which achieves the desired objectives of both the regulator and the bona fide professional resource developer, and with a little fine tuning, we can again make Ontario competitive with British Columbia and Quebec for primary high risk resource capital.

The Future

Where do we go from here? The present system, although not ideal, has provided a scandal free capital market from the regulator's point of view and an accessible capital market from the industry's point of view. However, this is achieved only with high costs in both time and money.

The OSC has recently addressed one fundamental problem without which no amount of legislative or policy tinkering has any material effect on the amount of public money available for high risk mining ventures. That basic problem was the lack of a bona fide public market for the secondary trading of junior resource issues. In combination with the TSE, the OSC recently established the Canadian Over-the-Counter Automated Trading System (COATS) which provides published daily trading results and, hopefully, will result in a market for secondary junior trading in resource issues in which the public has confidence.

Every major brief presented to the OSC since 1975 has advocated the creation for speculative issues, either a separate stock exchange, or a separate section on the TSE for speculative issues or a NASDAQ type system where the public obtains daily information about trading prices and volumes and can be assured that regulatory authorities are monitoring the market for fraudulent activities.

The OSC and the TSE jointly announced on May 1, 1985 a new system for non-listed securities which became fully operational on April 17, 1986. COATS will be operated and regulated by the OSC, and the TSE will act as the OSC's agent and supply an electronic quotation information and trade reporting system.

The COATS system will lead to greater efficiency in the investment community and capital markets. It will provide the public with quality information needed to provide a trading system upon which the public can

rely with confidence. Up to now, the public has had no confidence whatsoever in the unlisted market and believed it to be susceptible to abuse.

Hopefully, as soon as the present COATS system is functioning properly, the OSC will expand the number of COATS securities, particularly by permitting COATS trading of securities listed and posted for trading on Canadian stock exchanges other than the TSE, and as quickly as possible by enlarging and expanding the system from the computerized dissemination of current quotations and trade data to a fully operational trading system. Only then will the bona fide public market so long sought for junior resource issues be attained.

Our Committee believes that if the proposed policy for junior resource financing is implemented along with some of the other recommendations in the report, and metal prices improve somewhat, the Ontario capital markets will again be in a position where they can effectively provide the risk capital required by the Northern Ontario and the Canadian resource industries to find and finance the mines and wells necessary to help with Canada's balance of payments deficit and contribute to increased Canadian employment.

SECTION V

A REVIEW OF JUNIOR RESOURCE FINANCING IN 1985

Junior Mine Financing Statistics

Statistics on junior mine financing are difficult to compile for a number of reasons:

1. The various exchanges don't break down the financings by industry.

2. Larger issues are often cleared in several jurisdictions and can be double counted.

3. There are problems in defining junior companies.

4. Some companies are active in more than one industry.

5. In Vancouver, many dormant junior mining companies are being reactivated as industrial companies.

6. Various securities commissions list filing statistics but don't provide final numbers.

The Vancouver Exchange is undoubtedly still the primary source of new junior resource company financing with the Montreal Exchange making a strong comeback because of substantial government help in starting up new companies with the Quebec Stock Savings Plan (Q.S.S.P.). As shown on the following page, Vancouver had as many new listings as the other three Canadian stock exchanges combined.

New Listings on the Four Exchanges

	1985	1984
Toronto	73	100
Montreal	71(1)	52
Vancouver	231(2)	346
Alberta	70	61

(1) 41 companies eligible for Q.S.S.P.

(2) Instituted policy to activate dormant companies.

VANCOUVER STOCK EXCHANGE

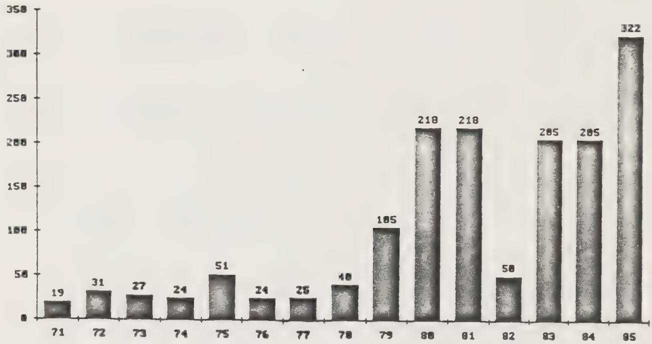
Number of Companies Listed in 1985: 2,046

Resource Companies: 84%

High Tech Companies: 6%

Other Companies 10%

ANNUAL
FINANCINGS
(IN MILLIONS $)
1971-1985



New Listings:	1985	-	230
	1984	-	346
	1983	-	293
	1982	-	104
	1981	-	219

VANCOUVER STOCK EXCHANGE

1985 FINANCINGS

		1985	1984
Initial		$ 24.8M	$ 31.4
S.M.F.[*2] & Prospectus		$ 98.4M	$ 92.1
Private Placements		$198.5M	$ 81.5 [*1]
	TOTAL	$321.6M	$205.0

*1 $21.3 Million in 1983.
*2 Statement of Material Facts

Source

Private Placements	$ 72.3M	(36.4%)	Western Canada
	$ 56.2M	(28.3%)	Eastern Canada
	$ 46.0M	(23.2%)	Europe
	$ 12.7M	(6.4%)	U.S.A.
	$ 11.3M	(5.7%)	Others
TOTAL	$198.5M		

VANCOUVER STOCK EXCHANGE

S.M.F.'s & PROSPECTUSES

1985[1]

Project	S.M.F.	Prospectus
Mining	78.1%	81.8%
Oil & Gas	8.4%	8.6%
Others	13.5%	9.6%

Note: Based on 189 S.M.F.'s and 203 prospectuses.

LOCATION OF MINING

PROJECTS FINANCED

Prospectus			S.M.F.
62.9	B.C.		37.8
10.5	U.S.A.		23.0
15.0	Ontario		19.2
1.5	Quebec		9.5
8.1	Other Canada		8.5
2.0	Other		2.0
100%		TOTAL	100%

1. Estimate by B.C. & Yukon Chamber of Mines.

Toronto Stock Exchange

A summary of new equity financing on The Exchange in the past four years is shown below:

TYPE OF FINANCING	1985	1984	1983	1982
	$	$	$	$
		(in thousands)		
Exchange Offering Prospectus (EOPs)				
Fixed Price Offerings	9,772	8,167	22,406	5,064
Open Market	-	-	-	-
Sub-Total	9,772	8,167	22,406	5,064
Public Offerings (other than EOPs)	8,003,047	6,138,815	5,730,928	3,093,941
Private Placements	802,723	873,597	1,514,791	225,979
Sub-Total	8,805,770	7,012,412	7,245,719	3,319,920
Rights	122,679	126,802	771,242	158,746
Grand Total	8,938,221	7,147,381	8,039,367	3,483,730

Of the total equity financings of \$8.94 billion, only \$9.8 million or 0.1% was raised by new companies using the exchange offering prospectus. Of these EOPs, only \$4.4 million was raised by 6 mining companies (\$3.3 million) and two oil companies (\$1.1 million). Three other industrial companies raised the remainder.

Mining companies (mostly large companies) listed on the exchange raised \$143.6 million in 1985 by selling flow-through shares. In addition, non-producing mining companies raised \$119.4 million in new equity of regular shares. Of this amount, \$101.3 million (85%) was for 7 companies with major projects outside of Ontario. Many of the smaller

financings were also outside Ontario. We estimate that only about 5% or $6 million of this total was for Ontario projects.

These statistics indicate that very few new mining projects in Ontario were being financed on The Exchange in 1985. The Committee then considered whether the proposed Ontario Share Ownership Plan would do anything to encourage companies to develop mining projects in Ontario (While the major projects being carried out by the larger companies could be helped, all the junior companies would be excluded). Therefore, the Committee believes that it is the junior companies that need the most help and that OSOP should be directed towards junior companies with projects in the province.

If we assume that all of the junior mines E.O.P. financing of $3.3 million was for Ontario projects plus $6 million for other junior mines financings and excluding flow-through shares as we are proposing, the total amount eligible for tax credits is only $9.3 million. The cost of the suggested 20% tax credit to the government would be only $1.86 million.

Ontario Over-The-Counter (O.T.C.) Companies

The Commission statistics show that junior mining companies filed for $56,726,000 in 1985 (vs. $71.4 million in 1984), and junior oil and gas companies filed for $3.8 million in 1985 (vs. $160.6 million in 1984). However a number of these filing were for companies listed on the four exchanges. A review of the bi-weekly O.S.C. reports for 1985 shows that 31 OTC resource companies raised for their treasuries the net sum of $12.6 to $14.4 million (minimum and maximum financings). Since the net to the treasury is about half the total paid by the public and a secondary offering is usually sold, the treasury only nets about 30% of the total raised (estimated at between $42 - $48 million). About two-thirds of these funds raised were for projects in Ontario.

Using these statistics, the Committee again assessed the cost of the proposed Ontario Share Ownership Plan (OSOP). If the tax credit were limited to 20% of the funds to the treasury of companies with prospects in Ontario, the provincial help to the OTC junior mining companies would only be about $1.8 million (e.g. 20% of $12.6 - $14.4 million x 66 2/3% Ontario projects = $1.7 to $1.9 million).

Therefore if all the junior mining companies were included in OSOP under the suggested guidelines, the cost to the province would have been approximately $3.7 million in 1985.

Junior Mine Financing in Ontario

The sequence of regulatory steps that are responsible for the decline of Junior Mine Financing in Ontario is summarized in section 4. For a more complete description of this matter up to 1978 (little changed until recently), the reader should refer to the Report by Professor Kalymon et al., University of Toronto, entitled Financing of the Junior Mining Company in Ontario.

The policies implemented in the late 1960's discouraged risk financing in Ontario and promoters left the province. As a result of public hearings in 1975, the Commission came forward with Policy 3.02 in October 1977 despite numerous objections from industry who warned that the Policy would constrict what was left of the junior mining industry. The Policy did not help junior companies for many reasons: it was oriented towards broker-dealer contracts, it had a rigid and unrewarding financing structure, it encouraged one shot deals, and it limited the number of prospector-vendor shares to a maximum of 100,000 free shares on an outright purchase. The broker-dealer had no incentive to screen deals and simply sold paper to the public at the maximum mark-up. Essentially all the better promoters and Junior Mining executives took their deals elsewhere, mainly Vancouver.

Any study of "broker-dealer" financings illustrates the high cost for market distribution and the limited amount of money that is spent on actual projects in the field. The result of two reviews by the Commission are summarized below. The first study covered the 18 month period from June 1980 to December 1981 and included 43 financings for 40 companies. The second study covered 25 issues from January 1, 1984 to June 30, 1984.

Structure of Financing and Allocation of Proceeds

Typically, the price offered to the public was equal to 200% of the net amount to the corporate treasury. Bonus shares equal to 15 shares for every 100 shares underwritten are issued to the underwriter who generally includes them as part of a secondary offering at prices averaging in excess of 150% of the treasury offering price. Other shares acquired by the promoter-vendor as the result of selling a property interest or for providing a loan, are usually sold or optioned to the underwriter and included as part of the secondary offering. The proceeds of the distribution were as follows:

	1980-81		1984	
Issuer	$14.8	31%	$ 6.3	32%
Underwriter	29.6	62%	11.3	58%
Promoter/Vendor	3.4	7%	1.9	10%
	$47.8(1)	100%	$19.4(1)	100%

(1) In millions of dollars

Geographical Targets of Exploration Funds

According to prospectuses filed the total funds allocated to exploration were on the following basis:

	1980-81		1984		1984(1)	
	$(millions)	%	$(millions)	%	$(millions)	%
Ontario	1.6	16.1	2.8	58.3	4.6	64.0
U.S.A.	7.2	71.8	2.0	41.7	2.6	36.0
Other Provinces	1.2	12.1	(2)-	-	-	-
	10.0	100.0	4.8	100.0	7.2	100.0

(1) Includes best efforts and exchange offerings.

(2) Included in U.S.A. grouping.

In the 1980-81 period, most of the companies were involved in oil and gas exploration in the U.S. In the 1984 period, the emphasis had swung back to mineral exploration in Ontario due to the Hemlo discoveries. A quick review of the 1985 financings indicated that the trend was continuing with about 2/3 of the funds allocated to projects in Ontario.

Success

The Commission study tried to group the companies into three categories.

(1) Unsuccessful:	no drilling successes, property abandoned or drilling postponed.
(2) Minor successes:	any commercially successful drilling attempts. These might include only one or more successful well which generates cash flow for the company but which is insufficient to sustain the company for any long period.
(3) Successful:	company generating sufficient cash flow from production to finance its own exploration program or discovery of a possible mine financed to preproduction or production stage.

Of the 40 new companies, 15 had minor success and two companies, Silver Century Explorations Ltd. and Gordex Minerals Limited have mineral production possibilities. Silver Century has a Cobalt area silver property and Gordex Minerals has a New Brunswick gold property.

For the 1984 companies, the study rates 8 of the issues as achieving minor success and a number of them are remaining active as the study included new listed companies as well as Securities Dealer issues.

Market Activity

For the 1980-81 issues the Commission report states that with the exception of Silver Century and Gordex Minerals, both the volume and prices of the issues dropped off significantly immediately following the distribution. Several of the issues have been reorganized and the remainder have no market.

For the 1984 companies, 8 of them are listed and have active markets but at generally lower prices. The other issues showed significant volume and price declines following distribution.

Summary & Conclusions

1. The percentage of the money raised that was spent in Ontario increased from 3.4% for the 1980-81 issues to 19% for the 1984 companies. These numbers indicate two problems, (a) the high cost of selling broker-dealer deals and (b) that companies raising money in Ontario may spend it elsewhere unless there are good incentives and/or economic or promotional reasons to work in the province.

2. The 3.02 Policy implemented in 1977 has encouraged one shot deals, no screening by underwriters, and a generally expensive and unsatisfactory method for financing junior resources companies (as predicted by industry).

3. Raising money is only one part of the equation for junior mining. In order to establish an efficient and effective junior resource sector in Ontario a combination of many of the following factors are required:

(a) realistic and workable securities policies with sufficient incentives for all sectors;

(b) a positive attitude by the regulators because they can negate any policy by bureaucracizing;

(c) participation by T.S.E. member brokers in financing;

(d) reasonable tax legislation on mining and capital (i.e. if the policy on flow-through shares is stopped, the exploration industry would die immediately);

(e) encouragement for promoters and others as the result of a reasonable tax environment (i.e. if Ontario brought in capital gains on shares, promoters would shun the province completely);

(f) a good data base and sound mining regulations; and

(g) competitive social, environmental and wage costs.

SECTION VI

A RECOMMENDED NEW FINANCING POLICY FOR JUNIOR RESOURCE ISSUERS

Historical Review

Mandate of the Committee

The Government of Ontario, in establishing the mandate for this Committee, has stated that it recognizes that the junior resource industry has been a major factor in the development of Ontario's mineral wealth and that junior resource companies should play an even greater role in discovering new mineral deposits than in the past. In order to accomplish this, the Government recognizes that competition for mineral sector investors is intense and that junior resource companies require support and an appropriate institutional framework which is competitive with that of other jurisdictions. There is also a need to establish a balance between the objectives of providing easy access to capital on the part of industry and the need for a prudent degree of investor protection.

In order to accomplish these objectives, the Committee has drawn upon the experience and knowledge of persons associated in all areas of junior resource financing including dealers, promoters, prospectors, lawyers, accountants and the management of junior issuers. The present and former policies of the Ontario Securities Commission, The Toronto Stock Exchange, the Vancouver Stock Exchange and the Superintendent of Brokers of British Columbia were all carefully reviewed as well as regulatory schemes elsewhere which were thought to have relevance. The ultimate conclusion reached by the Committee was that a policy tailored specifically for Ontario's needs and the closed system under the Ontario Securities Act and designed to be consistent with the concepts established in the Founders Stock Policy of The Toronto Stock Exchange should be the objective.

During the course of this review, it became apparent that there were many areas which were in need of policy guidelines where none had previously existed. In these cases, the Committee drew upon the experience and the policy guidelines in force in the Province of British Columbia, as a basis for the new Ontario policies. In view of the differing regulatory frameworks and securities laws from province to province, complete consistency was unobtainable. Nevertheless the Committee drew upon the basic principles established in Ontario and other jurisdictions to formulate a policy which will deal with many areas not previously the subject of policy guidelines in Ontario and tailored to the closed system under the Securities Act of Ontario.

A short summary of the policy guidelines in force in Ontario during recent years is informative.

Policies Before April, 1976

Prior to April 1, 1976, the policies in Ontario relating to the financing of junior resource companies consisted of two short statements. The first dealt solely with dealer compensation and the terms under which underwriting and best efforts financing were to be structured. The second dealt with vendor consideration, retained interests, escrow agreements, and transfers and releases from escrow. Essentially, the policy allowed 750,000 vendor shares to be issued for a raw prospect and set out the tests and circumstances under which such shares could be released from escrow and the circumstances under which the overall allotment of 750,000 vendor shares would be reduced. Reductions occurred in cases where cash consideration or retained interests formed a part of the vendor agreements.

Former Policy 3-02

In 1975, the Commission determined that the policies relating to junior resource financing should be completely replaced and in this regard, public meetings were held and advice was sought from members of the resource community. A policy, newly designated Policy 3-02, was put in place effective April 1, 1976. The most significant positive aspects of the policy were:

i) its requirement that the underwriter/distributor may not be directly or indirectly the promoter/entrepreneur or a prospector/vendor. This provision significantly reduced conflicts of interest by requiring the dealers to be at arm's-length to the other parties; and

ii) the requirement that any underwriter/distributor wishing to purchase vendor shares was required to pay to vendors not less than the minimum net proceeds to be received by the treasury of the issuer through public financing. This latter provision was essential to establish some degree of equity between the bargaining positions of the underwriters and vendors. Prior to the implementation of the new Policy 3-02, it was common for underwriters to also act both as vendor and promoter which placed prospectors in a very unfavourable bargaining position.

To the extent that the new Policy 3-02 was a step forward in the matters mentioned above, it also included a significant backwards step. The original concept of 750,000 vendor shares developed in Ontario over many years was abolished and in its place a scheme involving promoter shares and warrants was put in place. The promoter shares were purchased by the promoter at a nominal consideration and were designed to give the promoter voting control for five years which was anticipated to be the length of time necessary for a junior resource company to establish itself. To reward the promoter for his efforts in obtaining financing for the company, the company would create warrants in favour of the

promoter to purchase additional shares of the company. While the warrants were longlived (up to 10 years), the exercise price was inordinately high. In effect, the promoter was required to buy into his own deal.

The result of Policy 3-02 was that, while both the vendor and the dealer were adequately compensated, the promoter/ entrepreneur, who is the essential ingredient to the success of any enterprise, was not. This resulted in a situation where almost invariably the promoter was forced to assume the dual role of a vendor. Once this non arm's-length association was in place, the interests of the issuer and its shareholders were prejudiced.

Policy 3-02 also contained a provision which contemplated the establishment of an exploration advisory committee to consist of panels of at least three members chaired by a representative of the Prospectors and Developers Association of Canada. Unfortunately, during the several years that Policy 3-02 was in force, the exploration advisory committee was never established and no sittings ever took place.

Suspension of 3-02

At the convention of the Prospectors and Developers Association held in March, 1976, the Association published the proposed 3-02 policy statement and urged all of its members to join in a petition opposing the policy. The Association, for various reasons, believed that the policy was too restrictive and would not achieve its objectives. Unfortunately, the Association was correct in its assessments and in recognition of the policy's shortcomings, the Ontario Securities Commission, in its Bulletin of December, 1982, suspended the application of Policy 3-02.

Since December, 1982 there has not been any published policy in Ontario and each filing has been dealt with on an ad hoc basis. The

result has been the creation of uncertainty in the structuring of junior resource companies, with issuers endeavouring to select those portions of former policies which were most suitable in each individual case.

New Policy Proposals

Rather than simply preparing a list of recommendations which has been done in the past, the Committee determined that it should assist by actually formulating the draft policy itself.

The policy recommendations of the Committee are divided into 20 parts. As indicated above, many of these parts delve into areas which had not previously been the subject of policy guidelines in Ontario. It is believed that if the climate for junior resource financing is to flourish in Ontario, that persons wishing to do business in Ontario must be able to know in advance to the greatest extent possible precisely the rules under which they are to be guided. With these thoughts in mind, the new draft policy contains detailed and lengthy provisions covering almost all matters in which junior resource issuers are likely to be concerned. All of the positive aspects and lessons learned as the result of former Policy 3-02 have been retained.

There are provisions for applications to be made to the Director of the Commission for the exercise of his discretion where the affected party believes that the policy does not deal fairly with the situation at hand. Care has been taken to remove the element of doubt wherever possible and thereby avoid the imposition of any undue burden on the Director and his staff. It is believed that the great majority of junior resource issuers can be effectively organized and operate under the proposed policy guidelines with infrequent need to seek special applications for the Director's discretion.

If the mandate of the Committee, which is to encourage junior resource financing in Ontario, is to be achieved then many of the existing dealers who are members of The Toronto Stock Exchange and who currently do not participate in this market must find incentives to distribute junior resource issues. This will not happen simply by the introduction of new policy guidelines. As the policy becomes understood and its initial applications observed, it should become apparent to vendors and promoters that there are significant rewards available in the policy guidelines compared to those existing in Ontario in the past and in other jurisdictions. As more vendors and promoters begin to operate in Ontario, the number of dealers participating in such financings will increase.

The mandate of the Committee was not to disrupt the existing mechanisms for financing junior resource issuers in Ontario but rather to encourage new and more efficient methods of raising capital to occur. With this in mind, those few security dealers who currently underwrite junior resource issues in Ontario will continue to operate although under more stringent guidelines.

Fundamental to reactivating junior resource issuers in Ontario, is participation by prospectors and other vendors. Under existing rules, prospectors and vendors who receive shares of Ontario issuers are prevented from reselling their securities without a prospectus for 18 months from the later of the dates that they receive their shares or the date that the issuer becomes a reporting issuer. Practically speaking, this means that prospectors and vendors cannot sell shares during that period of time when market interest is greatest. By being unable to profit through the sale of shares, they are unable to finance their ongoing activities. By comparison, the situation in other jurisdictions is much more liberal and prospectors and vendors have been forced through economic necessity, to deal only with non-Ontario issuers. Unless prospectors and vendors are dealt with fairly, the system cannot work.

The new policy deals with these matters. It provides adequate compensation to dealers, promoters, founders and vendors and renders non arm's-length property agreements un-profitable. By encouraging arms-length transactions, conflicts of interest are removed and the protection of the public and the issuer is furthered.

Two important recommendations of the Committee are:

1. To re-establish a Technical Review Committee with a view to its passing judgement on the suitability of properties for public financing where differences of opinion exist with the Commission staff; and

2. To establish a Standing Liaison Committee of individuals drawn from industry and the Director's office to monitor and review the application of the policy on an ongoing basis and to effect, wherever necessary, appropriate changes. Unfortunately, during the several years that Policy 3-02 was in force, only one amendment was ever made and the policy gradually became much too rigid because it was not regularly reviewed.

The new Securities Policy for Resource Issuers proposed by the Committee is hereinafter set out.

SECURITIES POLICY FOR RESOURCE ISSUERS

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SECURITIES POLICY FOR RESOURCE ISSUERS

PART I
STATEMENT OF PRINCIPLE

1.1 The junior resource industry has been a major factor in the development of Ontario's mineral wealth. The Government of Ontario believes that junior resource companies should play an even greater role in discovering new mineral deposits than in the past and that they can do so if provided with the necessary support and appropriate institutional framework. It is recognized that competition for mineral sector investment is intense. Accordingly, the environment in Ontario for junior resource companies involved in exploration and development should be competitive with other jurisdictions. There is also a need to establish a balance between the objectives of providing easy access to capital on the part of industry and the need for a prudent degree of investor protection.

1.2 The Toronto Stock Exchange (the "Exchange") has published policy statements in order to foster the capital formation process for junior resource and industrial enterprises listed or seeking listing on the Exchange. There is a need to facilitate the raising of capital in Ontario for companies whose securities are not listed on the Exchange and to provide and encourage a system of efficient over-the-counter trading in Ontario. In response to these latter concerns, the Ontario Securities Commission (the "Commission") has introduced a regulatory system known as the "Canadian Over-the-Counter Automated Trading System" or "COATS".

1.3 In the past, the regulatory framework intended to foster and support junior resource companies throughout Canada has not been consistent or uniform. In adopting the policies which are hereinafter set out, consideration was given to establishing some consistency with the Founder

Stock Policy Statement of the Exchange as well as with similar policies of other jurisdictions.

Application of the Policy

2.1 This Policy Statement applies to all resource issuers which are reporting issuers in Ontario unless any of the securities of an issuer are listed and posted for trading on the Exchange. Non-reporting resource issuers should by guided by this Policy Statement if status as a reporting issuer is expected to be sought at a future time.

2.2 This Policy Statement is designed to ensure an equitable participation and relationship between the four main interest groups:

a) the public;
b) founders;
c) registered dealers; and
d) prospectors and other property vendors.

2.3 The Commission must ensure that the public is adequately informed as to the true nature and the essential risks of any venture in which it is asked to participate and receives an equitable share in the venture for the risk undertaken. It must also develop policies that encourage the venture to be responsibly managed and adequately financed for the benefit of all those involved.

2.4 Recognizing the diverse nature of the relationships that arise in the financing of junior resource companies and that flexibility is required in structuring transactions, this Policy Statement is intended to be subject to the overriding principle that the Commission and its Director when exercising their discretion in applying this Policy Statement, will do so in such a manner as to be consistent with the objectives stated in sections 1.1, 2.2 and 2.3 above.

PART II
THE FOUNDER STOCK MODEL

1.1 Members of the public who invest in junior resource issuers should receive opportunities for reward commensurate with the risks assumed. In addition, persons assisting in the formation and initial financing of these issuers (the "founders") must be appropriately compensated for their contributions. This Founder Stock Model presents a system of reward that is intended to ensure fair treatment to founders, prospectors, vendors, registered dealers and public subscribers. The Model will not apply to an issuer subject to the Founder Stock Policy Statement of the Exchange.

1.2 The term "founders" collectively refers to the group consisting of:

i) the promoters who are responsible for organizing or reorganizing an issuer;

ii) those who contribute money; and

iii) prospectors and other vendors who contribute property to an issuer during its formative period prior to the initial prospectus distribution in Ontario.

The founders usually obtain equity positions during this early stage in consideration of the entrepreneurial skills, know-how, expertise, efforts, ideas, monies and properties that they contribute. The need to regulate the size and nature of the founders' equity positions arises because the founders' shares are obtained at prices lower than the price the public is subsequently asked to pay when first invited to purchase equities of an issuer. The fundamental question is the proper relationship between the equity contribution of the founders and the risk taken

by them and the risk that the public is asked to take.

A. Definitions

2.1 In this Policy Statement:

a) "acceptance date" means the date of issuance by the Commission of the final receipt for a prospectus of an issuer;

b) "Act" means the Securities Act, R.S.O. 1980, c.466 and the regulation thereto as amended from time to time and any successors thereto;

c) "base shares" means shares of an issuer:

i) issued prior to the initial prospectus distribution by an issuer but excluding value shares; and

ii) issuable upon the exercise of a right to purchase, convert or exchange granted prior to the initial prospectus distribution which is exercisable at a price below the offering price per share, net to the issuer, of the initial prospectus distribution;

d) "cash flow" means "cash from operations" as disclosed in the statement of changes in financial position pursuant to present Section 1540 of the Handbook of the Canadian Institute of Chartered Accountants;

e) "Commission" means the Ontario Securities Commission;

f) "Director" means the Director or any Deputy Director of the Commission;

g) "founder contribution level" means the equity contribution of the founders based on net tangible book value prior to the initial prospectus distribution expressed as a percentage of the net proceeds to the issuer from the initial prospectus distribution;

h) "founder shares" or "founder stock" means base shares + value shares;

i) "founders" means persons or companies beneficially owning founder shares, directly or indirectly;

j) "initial prospectus distribution" means the first distribution of securities of an issuer which is made pursuant to a prospectus filed with a regulatory authority within or outside of Ontario. Initial prospectus distribution does not include a distribution made by an amendment to a prospectus filed pursuant to Section 56(2) of the Act;

k) "issuer" includes, but is not limited to, companies, limited partnerships and investment trusts;

l) "net tangible book value" means the total tangible assets of an issuer less the total liabilities, based on balance sheet values. Deferred exploration expenditures will be included in the net tangible book value of a resource issuer for the purpose of calculating the founders' equity contribution for value shares. In view of the diversity of accounting treatments available to derive balance sheet values for assets vended to issuers, the Director will review the particular accounting practices adopted for such derivations in particular instances. In particular, where an interest in a resource property has been acquired from a vendor not at arm's-length with the issuer, the Director may require evidence of value if the balance sheet value on acquisition exceeds the out-of-pocket costs to the vendor, including exploration and development expenses incurred by the vendor prior to the

acquisition of such interest by the issuer. Such evidence of value should follow the guidelines set out in Part VI for a resource property of determinate value.

m) "shares" also includes:

i) in the case of limited partnerships, a limited partnership unit; and

ii) in the case of investment trusts, a trust unit;

n) "value shares" means that number of shares of an issuer obtained by dividing the net tangible book value of the issuer prior to its initial prospectus distribution by the offering price per share net to the issuer from the initial prospectus distribution.

2.2 Unless it is otherwise defined in this Policy Statement, every term used herein which is defined in section 1 of the Act is used in this Policy Statement as so defined.

B. Issuers Exempt From the Founder Stock Requirements of Parts II and III

3.1 There must be compliance with the founder stock requirements of Parts II and III of this Policy Statement unless an issuer is within one of the five exemptions set out in sections 3.2(a), (b), (c), (d) or (e) below. Issuers not subject to Parts II and III of this Policy Statement are considered separately in Part IV.

3.2 An issuer shall be exempt from the founder stock requirements of Parts II and III of this Policy Statement if:

a) the prospectus for the initial prospectus distribution by the issuer was accepted or is to be accepted by the securities regulatory authorities of a jurisdiction recognized by the Commission as having a founder stock policy equivalent to this Policy Statement;

b) a prospectus of the issuer, other than a "shelf" prospectus filed pursuant to Section 52(2) of the Act, has been previously filed with the Commission and a receipt issued therefor;

c) a distribution by prospectus has been made in a jurisdiction other than Ontario at least 18 months prior to the initial prospectus distribution in Ontario and financial statements for such period have been prepared and distributed in such other jurisdiction prior to the acceptance date;

d) the issuer had a 2% pre-tax return on shareholders' equity in the full fiscal year preceding the initial prospectus distribution and current profitability at the time of the initial prospectus distribution, where the return on equity is from the same type of operation as that for which public funds are raised; or

e) the issuer's cumulative cash flow from operations for the 5 years preceding the initial prospectus distribution, divided by the number of shares outstanding after the initial prospectus distribution, on a non-diluted basis, equals at least 50% of the offering price per share of the prospectus distribution.

3.3 In calculating the return on shareholders' equity required by section 3.1 (d), the Director may require the adjustment of such capitalized charges as considered necessary.

3.4 Dormant issuers are considered separately in Part VII below.

C. Founder Contributions and Base Stock

4.1 This Policy Statement is designed to properly reward founders for their efforts in organizing an issuer and for the risks incurred by them while at the same time ensuring that the public is not asked to assume an unconscionable portion of the risk. This Policy Statement does this through two mechanisms:

i) limiting the amount of base shares; and

ii) providing for the escrowing of base shares owned by founders and a reasonable release mechanism.

4.2 All issuers, other than those exempted by section 3.2 above, will be subject to the base share requirements set out in this section C and the escrow requirements set out in Part III. The escrow release mechanism becomes less severe with increased founder equity contribution and with reduced founder base share positions.

Founder Contribution

5.1 This Policy Statement does not require that founders contribute any minimum amount of equity to the issuer. However, the issuance of value shares is dependent upon such a contribution. In addition, the release of base shares from escrow varies directly with the founder contribution level.

5.2 The founders shall provide the initial funds required for incorporation, legal, accounting and engineering/geological fees, the filing of the initial prospectus, the funds required by the issuer to acquire resource properties, funds to carry out (if necessary) preliminary exploration and/or development work, funds for other

immediate needs of the issuer and funds to provide some initial working capital.

5.3 Funds provided by the founders may be made through the purchase of equity shares or through loans to the issuer. Where a founder agrees to receive repayment of any loans to the issuer in consideration of the issuance of equity shares, the calculation of value shares and the founders contribution level shall be computed after giving effect to such issuances. Reference is also made to section 2.5 of Part III of this Policy Statement in computing the founder contribution level for the purposes of the Escrow Release Table when value shares are sold by founders on a secondary basis.

5.4 Table A sets out a sample calculation of the founder equity contribution level for an issuer with $100,000 in net tangible book value prior to its initial prospectus distribution which raises $500,000 net of underwriting fees, pursuant to the initial prospectus distribution.

Base Shares

6.1 Base shares shall not exceed 50% of the shares of the issuer outstanding, on a non-diluted basis, after completion of the initial prospectus distribution unless the number of base shares does not exceed 750,000, in which case up to 60% base shares is permitted.

6.2 Value shares are distinguished from base shares within the totality of founder shares because the former do not dilute the public's interest, having been issued for value at the offering price, net to the issuer, of the initial prospectus distribution. The value shares concept, based upon net tangible book value before the prospectus distribution, recognizes the contribution to shareholders' equity by the founders. The base shares reward the founders for their founding efforts. Base shares which are exempted from the escrow requirements or which have

been released from escrow pursuant to the provisions of Part III of this Policy Statement are not to be deemed to be value shares.

6.3 Value shares will not normally be escrowed. It is important to note, however, that the trading of value shares in Ontario is subject to the "closed system" of the Act and the restrictions on resale therein prescribed.

6.4 Appendix A hereto contains a blank form for the founder share calculation.

TABLE A

SAMPLE FOUNDER STOCK CALCULATION

I. Calculation of Founder Contribution Level

Net tangible book value prior to the initial prospectus distribution	$ 100,000
minus	
50% of equity contribution represented by value shares to be sold by founders in the initial prospectus distribution	NIL
divided by	
Net proceeds to the issuer from the initial prospectus distribution	$ 500,000
multiplied by 100	
equals	
FOUNDER CONTRIBUTION	20%

II. Calculation of Dilutive Founder Stock (Base Shares)

		# Shares	%
Net tangible book value prior to the initial prospectus distribution	$ 100,000		
divided by			
Net offering price per share of the initial prospectus distribution	$ 50¢		
equals			
VALUE SHARES	200,000	200,000	13.33
Shares issued prior to the initial prospectus distribution	500,000		
less			
value shares	200,000		
plus			DILUTIVE FOUNDER STOCK LEVEL
shares issuable under a right to purchase granted prior to the initial prospectus distribution at a price which is less than the net offering price *	nil		
equals			
BASE SHARES	300,000 (A)	300,000	$\frac{A}{B}$ x 100 equals 20%*
Shares issued prior to the initial prospectus distribution	500,000		
plus			
Shares issued under the initial prospectus distribution	1,000,000	1,000,000	66.67
equals			
ISSUED SHARES	1,500,000 (B)	1,500,000	100.0 *

* If there are shares issuable upon exercise of a right to purchase, convert or exchange granted prior to the initial prospectus distribution which is exercisable at a price below the net offering price of the shares offered under the initial prospectus distribution, the sum of the value shares, base shares and shares issued under the initial prospectus distribution will exceed the total issued shares.

PART III

ESCROW REQUIREMENTS

A. Shares Subject to Escrow

1.1 Subject to sections 1.2 and 1.3 below, it is required that all base shares beneficially owned directly or indirectly by founders who are:

a) promoters of the issuer;

b) officers and directors of the issuer beneficially owning, directly or indirectly, prior to the initial prospectus distribution, shares of the issuer exceeding 5% of the shares of any class of share of the issuer outstanding, on a non-diluted basis, prior to the initial prospectus distribution;

c) other persons or companies beneficially owning, directly or indirectly, prior to the initial prospectus distribution, shares of the issuer exceeding 10% of the shares of any class of shares of the issuer outstanding, on a non-diluted basis, prior to the initial prospectus distribution; or

d) associates or affiliates of any of the above;

be escrowed at the time of the acceptance date. The Director may, in addition, require the escrowing of base shares owned by other persons or companies.

1.2 The Director will generally not require the escrowing of that number of base shares which would otherwise be releasable, according to the terms of section B below, on the basis of cumulative cash flow from operations as at the acceptance date.

1.3 Where the founders have made equity contributions more than two years prior to the initial prospectus distribution, reflected in a balance sheet (audited if available) dated between 2 and 3 calendar years prior to the initial prospectus distribution, the Director will generally not require the escrowing of that number of base shares obtained by dividing the net tangible book value of the issuer on the aforesaid audited balance sheet by the offering price per share net to the issuer of the initial prospectus distribution to a limit of 25% of the base shares.

1.4 Although the Director will generally not require the escrowing of that amount of base shares referred to in sections 1.2 and 1.3 above, the escrowing of all or a portion of such base shares beneficially owned directly or indirectly by founders holding sufficient shares to affect materially the control of an issuer or who are involved in management of an issuer may, however, be required. Any such escrowing is intended by the Director to tie the founders to an issuer for a certain period of time after the acceptance date for the initial prospectus distribution. Release of these specific shares from escrow will usually be on an automatic basis with one-third being released annually, commencing 12 months after the acceptance date for the initial prospectus distribution, subject to the Director determining, in any particular case, that a particular release be delayed or refused.

B. <u>Release from Escrow</u>

2.1 The escrow release mechanism of this Policy Statement operates in 3 ways:

a) It provides for automatic releases on the basis of the Escrow Release Table as set out in Table B. For the purposes of Table B, automatic releases given in year 0 means on the acceptance date and in years 1, 2, 3, 4 and 5 means on the respective anniversary date of the

ESCROW RELEASE

FOUNDER CONTRIBUTION LEVEL

Dilutive Founder Stock Level (Base Shares)	Less than - 10%							10 - 19%							20 - 29%							30% and over						
	Automatic Releases						Earned Releases	Automatic Releases						Earned Releases	Automatic Releases						Earned Releases	Automatic Releases						Earned Releases
	Year 0	1	2	3	4	5	Any Year	Year 0	1	2	3	4	5	Any Year	Year 0	1	2	3	4	5	Any Year	Year 0	1	2	3	4	5	Any Year
Less than 30%	10	18	18	18	18	18	(1) (3)	10	22½	22½	22½	22½	-	(1) (3)	10	25	30	35	-	-	(1) (3)	10	30	30	30	-	-	(1) (3)
30 - 39%	10	13	13	18	18	28	(1) (3)	10	18	18	18	18	18	(1) (3)	10	22½	22½	22½	22½	-	(1) (3)	10	25	30	35	-	-	(1) (3)
40 - 50%*	10	5	5	5	5	-	(1) balance 3/7(2) 4/7(3)	10	6	7	7	-	-	(1) balance 3/7(2) 4/7(3)	10	10	10	10	-	-	(1) balance 1/2(2) 1/2(3)	10	10	15	15	-	-	(1) balance 2/5(2) 3/5(3)

* The dilution level may exceed 50% up to a maximum of 60% where the number of base shares does not exceed 750,000.

<u>Earned Releases</u>

Unless the table otherwise provides for automatic releases, earned releases plus automatic releases must not exceed:

- 1/3 of the original escrow before 1 year
- 2/3 of the original escrow before 2 years
- the balance of the original escrow before 3 years

(1) In addition to the automatic releases provided for in the table above, the first 750,000 base shares are subject to earned releases based on an expenditure test. The amount obtained by multiplying the net proceeds to the issuer from the initial prospectus distribution multiplied by 3 and divided by 750,000 (the "expenditure release rate") represents the amount of exploration and/or development expenditures required to be incurred to obtain the release of each share from escrow. If the result of such computation results in an amount which is less than $1.00 or greater than $4.00 then $1.00 or $4.00 respectively shall be substituted in lieu thereof. Earned releases may be applied for as exploration and development expenditures are incurred but may not in combination with automatic releases result in 100% of the base shares being released earlier than the end of the third year.

The balance of base shares exceeding 750,000 after allowing for automatic release and earned releases under (1) above shall be subject to earned release on the following bases:

(2) Releasable upon attainment of cumulative cash flow per share over any five-year period which is greater than or equal to 25% of the price per share of the initial prospectus distribution. The number of shares to be used in calculating the cumulative cash flow per share per year is the average of the number of shares outstanding at the beginning and end of the year. If years prior to the initial prospectus distribution are included, the number of shares to be used in the calculation for such years is the number outstanding immediately following the initial prospectus distribution.

Issuers in the mining category may apply to the Director for one-half of this release when a production decision has been made with respect to a material property and the requisite funds are in place. The second half of the release may be obtained when the property has attained commercial production.

(3) Releasable upon attainment of cumulative cash flow per share, as defined above, over any five-year period which is greater than or equal to 50% of the price per share of the initial prospectus distribution.

Where the level of dilutive founder stock is less than 40%, earned releases are available with respect to all shares remaining in escrow upon attainment of this level of cumulative cash flow per share, subject to the maximums set out above for the first two years.

acceptance date. Automatic releases are expressed as a percentage of the number of base shares originally deposited in escrow including any released on the acceptance date.

b) It recognizes the historic issuance of 750,000 shares as vendor consideration and establishes a liberal release mechanism for the first 750,000 base shares using an expenditure test. See footnote (1) Table B.

c) It establishes a more stringent test for base shares in excess of 750,000 based upon cumulative cash flow per share and for mining companies by a further production decision test. See footnotes (2) and (3) in Table B.

2.2 The rate at which base shares are released under the expenditure test is designed to ensure that virtually all of the proceeds to the issuer on the initial prospectus distribution will be expended on exploration and/or development. These expenditures, together with automatic releases during the first 3 years, will result in the full release of 750,000 base shares in most cases. To determine the amount required to earn the release of 1 base share, (the "expenditure release rate") the net proceeds to the issuer from the initial prospectus distribution is multiplied by 3 and divided by 750,000. If the resultant amount is less than $1.00 or greater than $4.00, then the figure of $1.00 or $4.00, respectively, is used. Expenditures may be incurred on any properties in which the issuer has an interest, whenever acquired. No criteria other than the filing of audited financial statements or an auditor's comfort letter to establish such exploration and/or development expenditures need be met to entitle the founders to a release of escrowed shares under the expenditure test. Subject to the limits prescribed in section 2.3 below, earned releases may be applied for as exploration and development expenditures are incurred.

2.3 Unless Table B otherwise provides for greater automatic releases, the total of earned releases and automatic releases must not exceed:

- 1/3 of the original escrow before 1 year;
- 2/3 of the original escrow before 2 years;
- the balance of the original escrow before 3 years.

2.4 The Escrow Release Table makes the conditions for release from escrow a function of the level of the founders' equity contribution and the size of the founders' base share position. Where a base share position of less than 40% of the shares of the issuer outstanding on a non-diluted basis after the initial prospectus distribution is taken, complete escrow release is allowed on an automatic time basis. Where a base share position of 40% or more is taken, release is partially automatic with time and partially dependent upon the issuer's performance, as measured by the amount of exploration and development expenditures and the cumulative cash flow. The cash flow test is also supplemented by a property development test for mining issuers.

2.5 Where value shares are to be sold by founders on a secondary basis as part of the initial prospectus distribution of an issuer, in calculating the Founder Contribution Level for the purposes of the Escrow Release Table, the founders will be credited with one-half of the equity contribution represented by the value shares sold. The intent of this section is to increase the severity of the escrow release mechanism when value shares are sold by founders as part of the initial distribution.

2.6 The Escrow Release Table allows founders an election by requiring earned releases (based on performance) only where a base share position of 40% or more is taken, in the hope of greater eventual reward. The more stringent escrow provisions in that circumstance protect the public interest; there is substantial initial dilution of the public because of

the base shares held by the founders, but the majority of the base shares are escrowed until an issuer becomes successful.

2.7 In certain cases, the original equity contribution of the founders of an issuer with some history prior to the initial prospectus distribution may have been reduced by accumulated losses prior to such distribution. The portion of base shares which reflects accumulated losses will be releasable from escrow once the issuer is profitable for a full fiscal year. The Director must be satisfied that the expenses which resulted in the accumulated losses were necessary to develop or maintain the business of the issuer. Where relief from escrow has been obtained under the "time value" provision of section A 1.3 of this Part III, the "accumulated losses" provision will be limited to losses as at the date of the balance sheet for the "time value" calculation.

2.8 The escrow agreement shall be in the form attached hereto as Appendix B or as is otherwise acceptable to the Director. All escrowed securities must be held by an escrow agent acceptable to the Director. Any release, transfer, sale, assignment or hypothecation of escrowed shares will be subject to the consent of the Commission. The consent of the issuer shall not be a precondition to the release of shares from escrow. Each transferee of securities that are subject to an escrow agreement must agree in writing to be bound by the terms and conditions of such escrow agreement and must file such agreement with the Commission within ten days of the Commission's consent to a transfer.

2.9 If an issuer declares a stock dividend on its common shares then any share dividend received by a founder on account of his ownership of base shares then in escrow must be deposited in escrow and become subject to the terms of the escrow agreement.

2.10 Guidelines relating to transfers within escrow are considered separately in Part V below. The prospectus used for the initial

prospectus distribution shall fully disclose the circumstances under which escrow shares are to be released in respect of both automatic and earned releases.

2.11 Notwithstanding the foregoing, the Commission may determine, in any particular case, that a particular release be accelerated, delayed or refused.

C. Cancellation of Escrowed Shares

3.1 Subject to section 3.2 below, any base shares not released from escrow within 10 years following the acceptance date of the initial prospectus distribution shall be donated to and cancelled by the issuer without payment by the issuer of any consideration therefor.

3.2 The issuer or any holder of base shares may apply to the Director for an extension of up to 5 years beyond the 10 year period specified in section 3.1 by which the base shares are subject to cancellation in the following circumstances:

i) if, in the case of a mineral property, the issuer has found itself unable to complete the exploration and development program to the point that its feasibility has been proven or disproven so far as can be done through surface or underground exploration and the issuer wishes to complete the program, or the exploration of the property has established the existence of a potentially economic mineral deposit which the issuer wishes to retain even though its immediate further development is not feasible because of then current conditions such as the price of metals, the cost of transportation or other economic factors; and

ii) if, in the case of oil and gas property, the issuer has found itself unable to complete the exploration and development program or the exploration of the property has established the existence of potentially

economic reserves of oil and gas, but its immediate further development and exploration is not feasible because of conditions such as the availability of pipelines or other economic factors.

3.3 Except as otherwise provided in this Policy Statement in relation to a reorganization under Part IV, base shares issued prior to an initial prospectus distribution may not be donated after the acceptance date to an issuer for cancellation so as to obtain a more favourable release schedule for any base escrowed shares that would remain outstanding after such donation.

PART IV

FURTHER CONDITIONS ON BASE SHARES OF EXEMPT ISSUERS

A. Issuers Exempted by Financial Criteria

1.1 Notwithstanding that an issuer is exempted from the base share requirements of Part II of this Policy Statement by section B 3.2 (d) or (e) of Part II, where it appears to the Director that the conditions of the initial prospectus distribution by the issuer were or are not in the public interest, the Director may require of the issuer, as a condition of the acceptance of a prospectus, that some part of the base shares of the issuer beneficially owned by founders, directly or indirectly, be tendered to the issuer by way of gift or for cancellation.

1.2 Notwithstanding that an issuer is exempted from the escrow requirements of Part III of this Policy Statement by section B 3.2 (d) or (e) of Part II, the Commission may require the escrowing of base shares of an issuer beneficially owned, directly or indirectly, by founders who:

a) hold sufficient shares to affect materially the control of the issuer; or

b) are involved in management of the issuer.

1.3 The Director may, in addition, require the escrowing of base shares held by other persons or companies.

1.4 Commencing 12 months after the acceptance date of the initial prospectus distribution, there shall be automatically released from escrow annually one-third of the shares originally escrowed pursuant to this Part IV, subject to the Director determining at the time such shares are deposited in escrow, that a particular release be accelerated, delayed or refused.

1.5 The escrowing of base shares in the case of more advanced issuers, otherwise exempt from the Policy Statement because of their financial record, is intended by the Commission to tie the founders to the issuers for a certain period of time after the initial prospectus distribution.

B. Issuers Exempted by Non-Financial Criteria

2.1 Notwithstanding that an issuer is exempted from the base share requirements of Part II and the escrow requirements of Part III of this Policy Statement by section B 3.2 (a), (b) or (c) of Part II, the Commission:

a) will review any escrow or pooling agreement then in effect; and

b) may require as a condition of the acceptance of a prospectus of the issuer that any release, transfer, sale, assignment or hypothecation of the escrowed or pooled shares be subject to the consent of the Director on terms to be determined by the Director.

PART V
TRANSFERS WITHIN ESCROW

1.1 Consents to the transfer of base shares within escrow will be granted where:

a) the transfer will be of benefit to the security holders of the issuer generally;

b) each of the transferor and transferee is part of a control group. The term "control group" shall have the meaning ascribed thereto in section 1(1)11(iii) of the Act;

c) the transfer is in relation to the settlement of an estate;

d) the transfer will not result in a change of beneficial ownership; or

e) where the proposed transfer represents a number of shares which when aggregated with all transfers of escrowed shares made by the transferor in the preceding 12 months, is less than one per cent of the issued and outstanding shares of the issuer at the time of the proposed transfer.

1.2 As a guideline in determining whether the transfer will be of benefit to the shareholders generally, the Director will consider matters such as whether a new board of directors will be elected, whether new financing is to be arranged, or whether the circumstances of the issuer can be expected to be reactivated or improved.

1.3 When a transfer of escrowed shares will result in a change in control of the issuer, then the Director shall consider whether the

financial condition of the issuer and the quality of the issuer's ongoing management will be improved by such a change.

1.4 The Director shall not consent to a transfer if:

a) having regard to the financial condition of the issuer or any officer, director, promoter, or a person or company or combination of persons or companies holding sufficient of the securities of the issuer to affect materially the control of the issuer, the issuer cannot reasonably be expected to be financially responsible in the conduct of its business; or

b) the past conduct of the issuer or any officer, director, promoter, or a person or company or combination of persons or companies holding sufficient of the securities of the issuer to affect materially the control of the issuer, affords reasonable grounds for belief that the business of the issuer will not be conducted with integrity and in the best interests of its security holders.

PART VI

VENDOR CONSIDERATION FOR RESOURCE PROPERTIES

This Part of the Policy Statement only applies to the acquisition by an issuer of a resource property or an interest therein after the issuer has filed a prospectus with the Commission and obtained a final receipt therefor. Prior to the initial prospectus filed with the Commission, any share consideration issued by an issuer will be governed by Parts I, II, III and IV of this Policy Statement.

In this Part a distinction is made between an acquisition which is carried out on an arm's-length basis and an acquisition made on a non arm's-length basis. As well, a distinction is made between resource properties of determinate value and of indeterminate value.

Escrow Provisions and Resale Restrictions

1.1 Section 71(1)(m) of the Act provides that a prospectus for a distribution of shares of an issuer is not required where the trade is made by an issuer in a security of its own issue in consideration of mining claims where the vendor enters into such escrow or pooling agreement as the Director considers necessary. Where the provisions of this Policy Statement relating to allowable vendor consideration in respect of properties of indeterminate value is complied with, and if reliance is made upon the exemption contained in Section 71(1)(m), a specific application to the Director for a determination under Section 71(1)(m) shall not be necessary. For the purpose of Section 71(1)(m) and having regard to the fact that no specific exemption relating to oil and gas properties exists, the Commission considers it appropriate for the purpose of Section 71(1)(m) that the term "mining claims" be deemed to include oil and gas properties or interests therein.

1.2 Where securities of an issuer are issued in accordance with this Part VI and, Section 71(4) would be the applicable section of the Act respecting restrictions on the resale of such securities, then notwithstanding Section 71(4) of the Act, the Commission shall permit the resale of such securities to occur on the following basis:

a) on the date the vendor is first entitled under the vendor agreement to receive any shares (which may not precede the date the agreement is made), 25% of the aggregate number of shares which the vendor may receive for the property, including shares representing option payments which may or may not be paid to the vendor dependent upon the fulfilment of conditions contained in the vendor agreement; and

b) 25% on each of the dates that falls 6 months, 12 months and 18 months after the operative date referred to in section 1.2 (a) above.

The trade resulting from any such resale shall be subject to the provisions of Section 71(5) of the Act, except the requirement contained in subsection 71(5)(a), as if Section 71(5) were applicable thereto.

Non Arm's-Length Parties - Definition

1.3 Where any insider or promoter of the issuer or an associate or affiliate of either is also the vendor or an insider or promoter of the vendor or an associate or affiliate of either, the transaction will be considered to be non arm's-length. For the purpose of this definition, the term "vendor" shall include any person or company who receives or is entitled to receive from the vendor any part of the consideration paid by the issuer to the vendor. The Director shall also have the discretion to decide whether parties to a particular transaction are dealing with each other on an arm's-length or non arm's-length basis.

Determinate and Indeterminate Value Properties - Definition

1.4 The Commission recognizes that the valuation of mineral properties is difficult, particularly when the development thereof has not established the existence of proven or probable ore. Nevertheless, properties in respect of which ore calculations are not appropriate can have a determinate value. For the purposes of this Part VI, all properties shall be deemed to be of indeterminate value unless application has been made to the Director and a determination of the value has been agreed upon.

1.5 Where the value of a property has been determined either through a computation of present value in a technical report deemed satisfactory to the Director or by some other recognized method of valuation and such value is considered reasonable by the Director, the property shall be considered to have determinate value. If ore reserves are not established, then significant exploration expenditures with favourable results may establish value.

1.6 The fair market value of a property may be determined objectively by comparison with prices for similar acquisitions carried out between willing buyers and willing sellers acting on an arm's-length basis. If the valuation involves an assessment or estimate of earnings performance of a property derived from projections rather than from an earnings history, such projections must be based on clearly stated assumptions supported by sufficient direct and specific evidence applicable to the property as to appear plausible and reasonable in the circumstances. The Director recognizes that it may be imprudent to set a precise valuation; however, the Director must be satisfied that the property is clearly not one of indeterminate value.

1.7 Where a property has been insufficiently developed to determine any meaningful analysis of market value or where it is otherwise inappro-

priate to predict earnings performance and no other generally recognized valuation techniques can reasonably be employed, the property will be considered to be one of indeterminate value.

1.8 In exercising his discretion in respect of the issue of shares for an interest in a resource property of determinate value, the Director shall determine that the number of shares issued for such property interest is not unconscionable.

Indeterminate Value - Non Arm's-Length Agreements

2.1 Where a resource property of indeterminate value is to be acquired in a non arm's-length transaction, the consideration therefor shall be restricted to the vendor's actual out of pocket costs of acquisition and maintenance, including exploration and development expenses incurred by the vendor on the property, plus any permitted royalty or net profit interest as provided in section 5.1 of this Part VI. Such consideration may be paid in cash or in shares. Such shares shall be valued at the issuer's net price to the treasury where the property acquisition is made in conjunction with a further financing or, in the absence of a further financing, valued at the then current market price less the following allowable discounts:

Market Price	Maximum Discounts Therefrom
50¢ or less	25%
51¢ - $2.00	20%
above $2.00	15%

save that for these purposes the value to the issuer must not be less than 20¢ per share net to the treasury.

2.2 The market price shall be determined in accordance with the provisions of section 1.10 of Part XIX hereof and the relevant date for

determining the market price shall be the date that the agreement specifies, which shall not be earlier than the agreement date.

Indeterminate Value - Arm's-Length Agreements

3.1 Subject to section 3.4 of this Part VI, where a resource property of indeterminate value is to be acquired through an arm's-length transaction, the following provisions shall apply:

a) the maximum number of shares which is permitted is 200,000 shares;

b) if 100,000 shares or less are provided for in the agreement, then such shares shall be issued to the extent of 1/4 thereof on the date that the agreement first provides for the issuance of shares (which shall not be earlier than the agreement date) and 1/3 of the balance shall be issued not earlier than each of the days that falls 6 months, 12 months and 18 months after the first issue date. The issuance of shares pursuant to this section 3.1 (b) may not be accelerated without the written consent of the Director even though the agreement gives the vendor the present right to receive all of such shares;

c) if more than 100,000 and up to 200,000 shares are provided for in the agreement, then:

i) 1/8 of the shares shall be issued on the date that the agreement first provides for the issuance of shares (which shall not be earlier than the agreement date);

ii) 1/4 of the shares shall be issued upon the expenditure of not less than $3.00 in exploration and/or development expenditures on the property for each share issued. For example, if the maximum

of 200,000 shares is provided for in the agreement, then expenditures of $150,000 will be required to permit 50,000 shares to be issued;

iii) the balance of 5/8 of the shares provided for in the agreement shall be issued in not more than 2 equal blocks upon the expenditure on the property of not less than $2.00 for each share issued. For example, if the maximum of 200,000 shares is provided for in the agreement, then exploration and/or development expenditures of $250,000 will be required to permit the remaining 125,000 shares to be issued; and

d) No criteria need be met to entitle the vendor to be issued the shares other than the filing with the Commission of available financial statements or an auditor's comfort letter to establish such exploration and/or development expenditures.

3.2 The purpose of the foregoing provisions is to put the vendor to an election. If the vendor shares permitted in section 3.1(b) are provided for, such shares will be issued on an automatic basis related solely with the passage of time. If the vendor shares permitted in section 3.1(c) are provided for, significant exploration and/or development expenditures will have to be incurred on the property for additional vendor shares to be issued beyond the initial 1/8 shares. Where a full 200,000 vendor shares are provided for in an agreement, exploration and/or development expenditures of $400,000 will be required for all such shares to be issued.

3.3 Expenditures by third parties made subsequent to the acquisition by the issuer of the property may be counted for the purpose of sections 3.1 (c)(ii) and (iii) of this Part VI.

3.4 The market price of the issuer's shares shall also be considered in determining the maximum allowable vendor consideration. In this connection the following rules shall apply:

i) The maximum number of shares permitted by sections 3.1(a) and (b), respectively, shall be reduced as follows:

Market Price	Maximum Percentage Allowed	Maximum Shares Allowed	
no market or		3.1(b)	3.1(a)
\$1.00 or less	100%	100,000	200,000
1.01 to 1.50	90%	90,000	180,000
1.51 to 2.00	80%	80,000	160,000
2.01 to 2.50	70%	70,000	140,000
2.51 to 3.00	60%	60,000	120,000

All agreements relating to shares of issuers having a then current market price in excess of \$3.00 shall be made subject to the Director's prior approval.

ii) The expenditures per share specified in sections 3.1(c)(ii) and (iii) shall be proportionately increased so that when the maximum permitted number of shares is taken, expenditures for a full issuance must equal \$150,000 under section 3.1(c)(ii) and \$250,000 under section 3.1(c)(iii).

For example, at the \$1.51 to \$2.00 price level the expenditures to be incurred for each share to the issued are calculated as follows:

\$150,000 ÷ (1/4 x 180,000) = \$3.33 per share
\$250,000 ÷ (5/8 x 180,000) = \$2.22 per share

iii) The market price shall be determined in accordance with the provisions of section 1.10 of Part XIX hereof and the relevant date for determining the market price shall be the date that the agreement specifies, which date shall not be earlier than the agreement date.

3.5 In addition to share consideration, cash consideration and royalties, or net profit, interests may be paid. "Up front" cash consideration and cash option payments to maintain a right to acquire the property are permitted.

3.6 The maximum number of vendor shares permitted under this Policy Statement in an arm's-length transaction may be issued for less than a 100% interest in a mineral property. However, the Director may in such circumstances exercise his discretion and require a lesser number of vendor shares to be issued. Issuers and vendors must also comply with the provisions of Part XVIII relating to adjacent properties and retained interests. In the case of an oil and gas property where 100% interests are unusual, agreements shall be assessed in relation to the norm for the industry in the circumstances.

3.7 As a general principle, a property vendor should be prepared to share some of the risks of exploration with the acquiring issuer. This principle would normally require an option type agreement with a relatively low initial payment in cash. The greater the number of shares provided for, the smaller the cash option payments should be. Each transaction should be measured in relation to the existing market conditions for arm's-length transactions at the time the agreement is made.

3.8 Where a property of indeterminate value is acquired through an arm's-length transaction, there shall be filed with the Commission within 10 days of the date that the agreement is effective or contemporaneously with any material change report made pursuant to Form 27 of the regula-

tions to the Act, whichever is the earlier, a statutory declaration made by a director or officer of the issuer which shall:

a) describe the transaction in sufficient detail to identify it;

b) name and give the addresses of the parties to the transaction;

c) state which of the parties to the transaction were acting on an arm's-length basis in accordance with the definition contained in section 1.3 of this Part VI;

d) name and give the address of any persons or companies which, to the knowledge of the declarant, have received or are entitled to receive from any vendor a greater than 5% interest in the shares or other consideration received or to be received by such vendor;

e) disclose the number and the market price (or the manner of calculating the market price) of the shares issuable; and

f) disclose the issued and outstanding capital of the issuer, both before and after the transaction, in respect of the class of securities of the issuer which are proposed to be issued pursuant to the terms of the transaction.

3.9 Agreements which fall within the confines of section 3.1 through 3.8 hereof will not require the prior approval of the Director.

Determinate Value - Agreements, Arm's-Length and Non Arm's-Length

4.1 For resource properties of determinate value, the issuer may issue cash consideration and shares to the vendor in both arm's-length and non arm's-length transactions. Where cash consideration for a property of determinate value is paid, the amount of such payments shall be deducted

from the value of the property before any calculation is made of the number of shares issuable in consideration thereof.

4.2 The number of vendor shares issued for a resource property of determinate value shall be based on the principle of value given for value received. Shares shall be valued at the price to the public where the property acquisition is made in conjunction with a further financing or, in the absence of a further financing, at the then current market price. The market price shall be determined in accordance with the provisions of section 1.10 of Part XIX hereof and the relevant date for determining the market price shall be the date that the agreement specifies, which date shall not be earlier than the agreement date. The price shall in no event be less than 20¢ per share.

4.3 Vendor shares issued for a property of determinate value shall be free from escrow.

4.4 Where sufficient uncertainty attends the determination of value of a resource property, but it is accepted that the property warrants a vendor consideration greater than that which would be permitted for a property of indeterminate value, then the Director may:

a) permit the issuance of vendor shares equal in value to the agreed determination arrived at pursuant to section 1.4 of this Part VI; or

b) permit the issuance of additional shares subject to the fulfilment of such future conditions as the Director may determine.

4.5 Additional shares permitted under section 4.4 (b) above must be issued, if at all, within 10 years of the date of the Director's determination unless application has been made to the Director and an extension of up to 5 years of the time for issuance has been granted. The

circumstances under which such application will be allowed will be similar to those applicable where an extension respecting base shares is sought under section 3.2 Part III.

4.6 The Director may in the case of a non arm's-length transaction require that the transaction in which the issuer is to acquire a property of determinate value be placed before disinterested shareholders for approval.

Royalties and Net Profit Interests

5.1 Net smelter royalties or net profit interests may be granted or reserved by the vendor in arm's-length and non arm's-length transactions, whether the properties are of determinate or indeterminate value. If the royalty is solely a net smelter return, then 3% is the maximum total burden. If the interest is solely a net profit interest, then 15% is the maximum total permitted burden. Any reasonable combination is also acceptable where the net effect is equal to the above limitations.

5.2 Where there is a provision in a vendor agreement to buy out a royalty and if the buy out price is not more than $500,000, then a higher royalty under the circumstances is possible. Each acquisition with a royalty greater than that specified in section 5.1 hereof will be reviewed by the Director on its own merits.

5.3 Where a mineral resource property, whether acquired at arms-length or non arm's-length and whether of determinate or indeterminate value, is not burdened by any royalties or net profit interests, the agreement with the vendor may provide for the issue of an additional 100,000 vendor shares to the vendor at the commencement of commercial production. The provisions of section 3.4 of this Part VI shall not reduce the 100,000 shares permitted hereby.

5.4 In the case of oil and gas properties, retained royalties or other interests will be judged by industry norms.

5.5 For the purposes of section 3.6 of this Part VI, if a mineral property is subject only to a royalty or net profit interest permitted in section 5.1 or 5.2 or an oil and gas property is subject only to government or landowners royalties, the remaining interest is considered to be a 100% interest.

Further Trades of Shares for Resource Properties

6.1 Where a vendor in respect of a trade relies upon the exemption contained in Section 71(1)(m) of the Act and, where such vendor has acquired the mining claims pursuant to a transaction with another person or company which requires the vendor to deliver to such person or company all or a part of the securities which are the subject of the exempt trade, then the further trade to the other person or company shall not be subject to the provisions of Sections 52 and 61 of the Act, provided the first trade in such securities by the person or company is a distribution unless such first trade is made in accordance with subsection 71(4) of the Act as if subsection (4) were applicable thereto. Section 1.2 of this Part VI shall also apply to the resale of shares by the other person or company.

PART VII
DORMANT ISSUERS

1.1 The Commission recognizes that, under certain circumstances, it would not be prejudicial to the public interest for an issuer to issue base shares subsequent to its initial issuance of base shares. In such cases, the subsequent issuance must facilitate the reactivation and reorganization of an inactive issuer by enabling its principals to obtain a measure of control in order that the reactivation, and subsequent development, may proceed in an orderly fashion. In addition, such an issuance will create an incentive to the issuer's principals, thereby ensuring their support to the issuer's affairs.

1.2 The Commission is, however, of the opinion that the competing interests of the principals, the issuer's shareholders and the investing public generally must be fairly balanced when additional base shares are issued.

Definitions

2.1 In this Policy Statement:

a) "dormant issuer" means any issuer designated as a dormant issuer by the Director for the purposes of this Part VII or an issuer that meets all of the following criteria during the previous 2 years:

i) the realizable value of its assets exceeds its liabilities by not more than $50,000 or, if it does exceed $50,000, then the working capital of the issuer does not exceed the sum of $25,000;

ii) not more than $25,000 per year has been expended by the issuer or others on administrative expenditures and exploration or development expenditures directly related to its assets;

iii) it has not issued securities for cash exceeding $10,000; and

iv) it has not received operating revenue exceeding $10,000;

b) "reorganization" means a reorganization of the business affairs of a dormant issuer which involves a new financing pursuant to a distribution of its securities whether by prospectus or otherwise and at least two of the following:

i) the election or appointment of a majority of new directors;

ii) the acquisition of a resource property or other asset by the issuer;

iii) a share consolidation, subdivision or other capital alteration arising from an amalgamation, merger arrangement or analagous transaction;

iv) the settlement of a substantial portion of the issuer's debts by way of a share issuance or otherwise; and

v) a change in the controlling shareholder(s) of the issuer;

c) "additional base shares" means base shares issued by a dormant issuer as part of a reorganization;

d) "principal" or "principals" means the group or any member thereof consisting of all insiders and promoters of an issuer or any associate of such insiders and promoters; and

e) "special resolution" means a special resolution as defined in the Business Corporations Act (Ontario).

General

3.1 Subject to the provisions hereof, a dormant issuer may issue additional base shares but only for cash consideration.

3.2 Additional base shares may only be issued to principals. A principal who has acquired additional base shares will not be permitted to subsequently transfer such shares during the term of such escrow except to a person or company who is also a principal or will become a principal as a result of such transfer. The transfer shall also comply with the requirements of Part V of this Policy Statement.

3.3 The agreement providing for the issuance of additional base shares must be entered into at the time the reorganization occurs, however, the additional base shares may not be issued until the reorganization has been completed.

3.4 A dormant issuer, as part of a reorganization, may issue additional base shares notwithstanding that:

a) it has base shares outstanding; or

b) it did not, prior to the time it became a reporting issuer, issue any base shares.

3.5 All additional base shares must be placed in escrow. A principal acquiring additional base shares must execute and cause to be filed with the Commission an escrow agreement in the form set forth in Appendix "B" hereto or in such form as is otherwise acceptable to the Director.

Maximum Number of Additional Base Shares

4.1 The number of additional base shares which may be issued by a dormant issuer shall be limited to that the number of base shares which is equal to the difference between the total number of existing escrowed base shares to be outstanding following the reorganization and the following:

Consolidation Ratio	Number
1:1	750,000
1:2	656,250
1:3	562,500
1:4	468,750
1:5 (and greater)	375,000

4.2 Provided, however, additional base shares may not be issued if after the consolidation (if any) and the reorganization, the total number of pre-existing escrowed base shares and additional base shares owned by the principals, when added to the number of shares owned by the principals which are not then escrowed, must not exceed 50% of the total issued shares of the issuer.

Minimum Issue Price

5.1 The minimum issue price per share of additional base shares shall be the greater of $0.01 or 10% of the market price of the issuer's shares. The market price shall de determined in accordance with the provisions of section 1.10 of Part XIX hereof and the relevant date shall be the date of the agreement providing for the issuance of additional base shares.

5.2 If the issuer's shares have not traded at any time during the 90 day period preceding the date of the agreement providing for the issue of the additional base shares, then the minimum issue price per share shall be $0.01.

5.3 In the event the reorganization involves a share consolidation, the minimum issue price which would otherwise be obtained by virtue of section 5.1 hereof, if greater than $0.01, must be multiplied by the number of pre-consolidated shares required to be exchanged for one consolidated share.

Release from Escrow

6.1 If additional base shares are issued, the total number of base shares which may be issued may not exceed 750,000 shares. In such circumstances, the basis for automatic releases and for earned releases of additional base shares issued as the result of a reorganization shall be computed by using Table B and the method set out in footnote (1) to Table B. If the distribution occurring in connection with the reorganization is not a distribution by a prospectus, then the automatic release given in year 0 shall be delayed until the first distribution by prospectus following the reorganization.

6.2 For the purpose of computing the founder contribution level and dilution level in Table B, the number of shares of the issuer outstanding immediately prior to the reorganization (excluding escrowed base shares then outstanding) shall be disregarded.

6.3 The basis for earned releases and expiry date for escrowed base shares outstanding prior to a reorganization shall not be altered by such reorganization, save as required by section 1.3 of Part IX hereof.

6.4 A holder of escrowed base shares outstanding before a reorganization may donate such escrowed base shares to the issuer for cancellation in order to obtain additional base shares as provided for in this Part VII and thereby a more favourable earned release mechanism and/or expiry date.

6.5 In all other respects, Parts II, III and IV concerning founders contribution levels and escrow provisions attaching to base shares shall be applicable as in the case of an initial prospectus distribution with appropriate changes in context where necessary.

Cancellation

7.1 Any additional base shares not released before the expiration of 5 years from the date of issuance of the additional base shares shall be cancelled without payment by the issuer of any consideration therefor.

Shareholder Approval

8.1 The issue of any and all additional base shares must be approved by the dormant issuer's shareholders by way of a special resolution.

News Release

9.1 The proposed issuance of additional base shares and reorganization are "material changes" in the affairs of a dormant issuer. Accordingly, the issuer must announce such changes in a timely manner by way of a news release.

PART VIII

DEALER COMPENSATION

Three Types of Offerings

1.1 The three methods of distributing securities pursuant to a prospectus are defined below:

a) An underwritten offering is an offering where, subject only to the provisions of the underwriting agreement, a dealer agrees to purchase either as principal or as agent for a principal, a specified number of securities of an issuer at a specified price with a view to a distribution of such securities;

b) A best efforts offering is an offering where a dealer acting as agent for an issuer, agrees to use its best efforts to effect a distribution of securities of the issuer. Such an offering shall specify that a minimum number of securities of the issuer must be sold in order to accomplish the purposes set out or the offering will be withdrawn. Additional securities of the issuer may be offered after the minimum is reached but only up to the maximum number of securities set out in the offering; and

c) A guaranteed offering is an offering where a dealer acting as agent for an issuer agrees to effect a distribution of securities of the issuer, and which offering provides that if at the end of the offering period a previously specified minimum number of securities of the issuer are not sold, the dealer shall purchase on its own behalf or acting as agent for a named principal any unsold securities of the issuer as principal. Additional securities of the issuer may be offered after the guaranteed minimum amount has been paid.

A combination of an underwritten and best efforts offering is also permitted.

Minimum Size Offering

2.1 The minimum underwritten, best efforts or guaranteed offering shall be for not less than $100,000 net to the issuer's treasury. A smaller offering of not less than $75,000 is permitted if the working capital of the issuer when combined with the net proceeds of the offering will equal at least $100,000.

2.2 All offerings of treasury shares pursuant to a prospectus offering must be at a fixed price which must appear on the face page of the prospectus. Except for the dealers compensation option referred to in section 12.1 of this Part VIII, which permits sales at varying prices, options to a dealer to purchase treasury shares will be permitted only if the net proceeds per share to the issuer and the offering price per share are the same as the original offering price.

2.3 If the dealer is unable to sell the entire offering at the price stated in the prospectus and wishes to reduce the offering price, the net amount to be received by the issuer shall not be reduced. An amendment to the prospectus shall be filed before effecting such a reduction.

2.4 The minimum proceeds to be received by an issuer in respect of an offering of shares shall be at least 20¢ per share.

Payments and Term of Offering

3.1 a) In the case of an underwritten offering, the dealer may pay for the underwritten securities as they are resold to the public. Payments shall in any event be made to the issuer equal to not less than 1/3 of the net proceeds within 30 days of the acceptance date, 1/3 within 60 days of the acceptance date with the balance no later than 90 days from the acceptance date.

b) A best efforts offering to achieve the minimum distribution may remain open for up to 90 days.

c) A guaranteed offering may remain open for up to 90 days prior to the date that the purchase by the dealer of any unsold securities pursuant to the guarantee occurs.

d) The Director shall have discretion to shorten or extend the 90 day period referred to in subparagraphs (b) and (c) above upon such terms and conditions as the Director may impose.

e) Additional securities beyond the minimum in a best efforts offering or beyond the guaranteed portion in a guaranteed offering plus any shares purchased by a dealer pursuant to a guarantee may continue to be offered for sale after 90 days.

Dealer's Commission or Mark up

4.1 The maximum price at which treasury shares of an issuer may be offered for sale to the public shall be dependent upon the proceeds per share received by the treasury of the issuer. Set forth below is a table which sets out the maximum mark up or dealer commission permitted as a percentage of the proceeds to the issuer:

Net Proceeds to the Issuer	Dealer Mark Up or Commission	Price to the Public
up to 65¢	100%	$1.30
75¢	95%	1.46
85¢	90%	1.62
95¢	85%	1.76
$1.05	80%	1.89

1.15	75%	2.01
1.25	70%	2.13
1.35	65%	2.23
1.45	60%	2.32
1.55	55%	2.40
1.65	50%	2.48
1.75	45%	2.54
1.85	40%	2.59
1.95	35%	2.63
2.05	30%	2.67

Where the proceeds to the issuer lies between prices set out in the chart above, the dealer mark up or commission as a percentage of such net proceeds shall be pro-rated. For all distributions where the net proceeds to the treasury exceeds $2.05, the maximum mark up or commission payable to the dealer shall be 30%.

Unit Offerings

5.1 A unit offering of shares, warrants and other securities is permitted. The minimum proceeds to be received by an issuer in respect of an offering of units shall be 25¢ per unit.

5.2 Warrants to purchase the same class of security as that being distributed under the offering which forms part of a unit shall have the following attributes:

a) the exercise price shall be not less than the offering price;

b) the number of securities issuable upon the exercise of the warrants shall not exceed the number of securities of that class distributed under the offering;

c) the warrants shall have a term to expiry not extending beyond 2 years after the acceptance date; and

d) piggy back warrants are not permitted.

5.3 Where the securities distributed under a prospectus include rights to purchase, convert or exchange securities of the issuer, Section 52 of the Act does not apply to the first trade in securities issued through the exercise of the rights to purchase, convert or exchange:

a) where the issuer has not been a reporting issuer for 18 months, the securities that are issued through the exercise of the rights to purchase, convert or exchange are publicly traded;

b) such first trade is not a distribution as defined in subclause 1(1)11(iii) of the Act; and

c) no unusual effort is made to prepare the market or to create a demand for the securities and no extraordinary commission or other consideration is paid in respect of such trade.

Dealer's Bonus

6.1 a) In addition to the amounts referred to in section 4.1 above, where the dealer distributes securities which provide an issuer with net proceeds of not less than $150,000, the dealer may receive a bonus of 15 shares for every 100 shares the dealer purchased on an underwritten basis from the treasury or which are subject to the guarantee and, in the case of a best efforts offering or the unguaranteed portion of a guaranteed offering, 10 shares for every 100 shares so distributed. If securities other than shares are sold, the bonus shall be payable in the form of the securities so distributed or other securities acceptable to the Director. Bonus securities may be offered by the dealer as a secondary offering.

b) Where an underwritten offering of less than $150,000 is carried out, the bonus shall be paid only if the issuer and the dealer within 12 months of the acceptance date in respect of the original distribution, file a preliminary prospectus with the Commission and agree to distribute additional securities of the issuer so that the aggregate proceeds received by the issuer will be not less than $150,000. The bonus shall then be paid on the combined distribution.

Best Efforts - Trustee

7.1 Where a best efforts offering is carried out, a trustee acceptable to the Director shall hold the proceeds until the offering is completed or the minimum amount of the offering is received. If the minimum amount established in the prospectus is received, these funds shall be released to the issuer. Alternatively, if the minimum amount has not been received within the time specified in the prospectus, the trustee shall return the subscription proceeds to subscribers without any deductions.

Best Efforts - Amendment

8.1 Where an amendment to a prospectus in respect of a best efforts offering is required prior to the receipt by the trustee of any minimum amount specified in the prospectus, the issuer or the dealer shall obtain from each subscriber within 15 days of the date of acceptance of the amendment an acknowledgement that the subscriber has been provided with a copy of the amendment and that he either confirms or rescinds his subscription. Where such subscriber either rescinds his subscription or does not complete and return the acknowledgement, his subscription will be deemed to be rescinded and the subscription proceeds shall be refunded to the subscriber without any deduction. The filing of an amendment to a best efforts offering shall not extend the duration of the offering without the consent of the Director.

8.2 The acknowledgement sent to the subscriber shall be signed and dated by the subscriber and returned to the issuer or the dealer and shall state that the subscriber:

a) acknowledges receipt of the amendment; and

b) either confirms or rescinds his subscription.

Additional Financing by Amendment

9.1 An amendment to a prospectus may be filed in compliance with Section 56(2) of the Act for the purpose of distributing securities in addition to the securities previously disclosed in a prospectus or amendment thereto.

Secondary Offerings

10.1 A distribution under a prospectus may include both treasury shares and secondary shares.

10.2 Where the dealer mark up or commission as set out in section 4.1 of this Part VIII exceeds 30%, the number of secondary shares offered may not exceed 50% of the number of treasury shares unless otherwise permitted by the Director.

10.3 Where the prospectus provides for a distribution which includes treasury and secondary shares, all of the treasury shares must be distributed before any of the secondary shares may be sold. The selling security holder(s) must bear a proportionate share of the expenses of distribution based upon the number of securities which are qualified for sale.

10.4 Securities of an issuer purchased by a dealer pursuant to a guaranteed offering may be resold by the dealer as a secondary offering following the sale of all treasury shares offered in the prospectus.

10.5 Secondary shares may be offered at prices other than the fixed price at which treasury shares are offered. Where the provisions of section 16.3 of this Part VIII are applicable, an estimated range of offering prices for secondary shares shall be specified on the face page of the prospectus. If secondary shares are proposed to be sold at prices either higher or lower than the specified price range, an amendment to the prospectus must be filed before any such sales are made.

Green Shoe Option

11.1 The dealer will be allowed a "green shoe" option at the net price to the treasury of the issuer in respect of the offering which option shall be limited to the size of the dealer's over-allocation position as at the close of trading 2 trading days after the commencement date of the offering to a maximum of 15% of the distribution. The option will extend not more than 60 days following such commencement date. The dealer will be responsible for reporting its over-allocation position to the Commission before the commencement of trading on the third business day following the commencement date. Securities obtained pursuant to the exercise of the "green shoe" option may be sold immediately in the open market.

Compensation Option

12.1 A dealer will be allowed a non-assignable option (the "Compensation Option") on additional treasury securities for not more than 10% of the number of securities underwritten or guaranteed pursuant to a guaranteed offering for a maximum term of 3 years. The exercise price shall not be less than the offering price of the securities. The dealer will

be able to sell securities obtained through the exercise of the Compensation Option in the open market once the distribution has been completed, subject to the notice, marketing and reporting provisions which are set out below.

12.2 Section 52 of the Act does not apply to the granting, pursuant to section 12.1 of this Part VIII, of a Compensation Option to a dealer who acts as an underwriter or guarantor in a distribution or, the exercise of the Compensation Option or, the first trade in securities acquired by the vendor through the exercise of the Compensation Option if:

a) the issuer of the securities is a reporting issuer and, where a person or company in a special relationship with the reporting issuer, as defined in Section 75 of the Act, is the seller, he or it has reasonable grounds to believe that the issuer is not in default of any requirement of the Act or the regulations;

b) disclosure to the Commission has been made of the issuance of the securities under the Compensation Option;

c) a notice of intention to sell and a declaration, both prepared in accordance with Form 23 of the regulations and which declaration is signed by the seller as at a date not more than 24 hours prior to its filing, are filed with the Commission by the seller at least 7 days and not more than 14 days prior to the first trade in the securities specified under such notice, provided that such notice and declaration are renewed and filed at the end of 60 days after the original date of filing and thereafter at the end of each 28 day period so long as any of the securities specified under the original notice have not been sold or until notice has been filed that the securities so specified or any part thereof are no longer for sale;

d) the vendor files with the Commission within 1 day after the completion of any trade a report prepared in accordance with Form 37 of the regulation, and for the purposes of this subparagraph 12.2(d), the vendor is deemed to be an insider of the issuer of the securities whether or not he is an insider as defined in the Act;

e) no unusual effort is made to prepare the market or to create a demand for the securities and no extraordinary commission or other consideration is paid in respect of such trade; and

f) the trade is not a distribution as defined in subclause 1(1)11(iii) of the Act.

12.3 The dealer shall maintain a record of the number of securities obtained through the exercise of the compensation option, the gross proceeds to the issuer therefrom, the number of such securities sold by the dealer and the gross proceeds to the dealer therefrom.

Promoter's Option

13.1 The promoter of an issuer will, at the time of the initial prospectus distribution, be allowed an option (the "Promoter's Option") on additional treasury securities for not more than 20% of the number of treasury securities distributed under the initial prospectus distribution for a maximum term of 3 years. The Promoter's Option will not be exercisable for the first year and the exercise price shall not be less than the Offering Price. The Promoter's Option shall be non-assignable, provided that in certain circumstances the Director may consent to the assignment of a portion of the Promoter's Option where the assignee was a security holder of the issuer prior to the aforesaid distribution.

13.2 The securities obtained by the promoter upon exercise of the Promoter's Option will be free for resale in the open market subject to the notice, marketing and reporting provisions which are set out below.

13.3 Section 52 of the Act does not apply to the first trade in securities previously acquired through the exercise of a Promoter's Option granted to a promoter of the issuer pursuant to section 13.1 of this Part VIII if:

a) the issuer of the securities is a reporting issuer and has been a reporting issuer for at least 18 months and is not in default of any requirement of the Act or the regulations;

b) the vendor has held the securities or that number of securities of the class to be traded for at least 6 months;

c) a notice of intention to sell and a declaration, both prepared in accordance with Form 23 of the regulation, and which declaration is signed by the vendor at a date not more than 24 hours prior to its filing, are filed with the Commission by the vendor at least 7 days and not more than 14 days prior to the first trade in the securities specified under such notice, provided that such notice and declaration are renewed and filed at the end of 60 days after the original date of filing and thereafter at the end of each 28 day period so long as any of the securities specified under the original notice have not been sold or until notice has been filed that the securities so specified or any part thereof are no longer for sale;

d) the vendor files with the Commission within 3 days after the completion of any trade a report prepared in accordance with Form 37 of the regulation, and for the purposes of this subparagraph 13.3(d), the vendor is deemed to be an insider of the issuer of the securities whether or not he is an insider as defined in the Act; and

e) no unusual effort is made to prepare the market or to create a demand for the securities and no extraordinary commission or other consideration is paid in respect of such trade, provided that where a Promoter's Option is assigned in whole or in part, the first trade by any assignee of its securities acquired upon the exercise of the option is effected in compliance with the provisions of this subparagraph 13.3 or under a prospectus for which a receipt is issued by the Director pursuant to Section 60 of the Act.

13.4 Where the securities issuable through the exercise of a Promoter's Option or a Compensation Option include rights to purchase, convert or exchange securities of the issuer, the rules applicable to the Promoter's Option or the Compensation Option as set out in sections 12.2 and 13.3, as the case may be, apply to the rights to purchase, convert or exchange and the securities obtained through the exercise of such rights.

Conflicts of Interest

14.1 Registrants for trading in securities should avoid conflicts of interest arising from the acquisition of shares distributed by an issuer. Where a dealer participates in a distribution by prospectus of securities of an issuer, the following shall apply:

a) the term "dealer", for the purpose of this section 14.1, shall mean the dealer or dealers which in the course of a distribution by prospectus effect trades in any jurisdiction where such trades are made and includes directors, officers, shareholders, partners and associates of the dealer or such individual;

b) a dealer shall not directly or indirectly be the promoter or the vendor in respect of an issuer;

c) a dealer may be a founder of an issuer provided that the maximum number of securities of any class of the issuer held by all dealers prior to the initial prospectus distribution shall not exceed 10% of the securities of any class of the issuer then outstanding;

d) if a founder or a vendor wishes to sell securities of the issuer, the dealer may purchase such securities as principal at a price not less than the underwriting price or the net price to the treasury of the issuer in the case of a best efforts or guaranteed offering;

e) if any securities of an issuer acquired by the dealer as a founder are offered for sale as a secondary offering in a prospectus of the issuer an opportunity shall be given to other founders of the issuer to participate in the secondary offering; and

f) each prospectus must disclose on the face page or in the body of the prospectus with a cross reference on the face page, the aggregate number of securities of all classes of the issuer owned directly or indirectly by the dealer and the prices at which and the dates when such shares were purchased.

Market Out Provisions

15.1 Where, following the issuance by the Commission of a receipt for a preliminary prospectus of an issuer, any dealer named therein decides not to proceed with an offering, whether or not an underwriting or agency agreement has actually been entered into with the issuer or another dealer, the dealer shall forthwith send a letter to the Commission and the issuer--which letter shall provide details of the circumstances which gave rise to the decision on the part of the dealer to

exercise such rights. Such letter shall be placed in the issuer's public file.

Short Sales

16.1 Short sales provide a fund from which the dealer may, following the initial sales effort, make purchases by way of market support. The Commission recognizes that an "orderly" after market with support bids is dependent upon the dealer being able to build a significant short position to be used over an extended period of time. It is also recognized that the need for such support bids diminishes as the costs of distribution are reduced.

16.2 A dealer may during the course of a distribution sell a number of securities of the issuer in excess of the number qualified for sale under the prospectus. Such sales may exceed the number qualified under the prospectus (excluding the number of shares represented by the dealer's green shoe and compensation options) by up to 15%.

16.3 Where the dealer mark up or commission as set out in section 4.1 of this Part VIII exceeds 30%, the following additional provisions shall apply:

a) a trust account shall be established by the dealer to hold the proceeds of all short sales of the issuer to be used exclusively to hold such proceeds for the purpose of maintaining a bid for shares of the issuer;

b) as of a date (the "computation date") to be selected by the dealer but in any event not later than the first anniversary of the date of the receipt issued by the Commission for the issuer's preliminary prospectus, the dealer shall:

i) between the date of issuance by the Commission of a final receipt for the prospectus of the issuer and the computation date, compute the total amount paid by the public for all shares of the issuer sold by the dealer less the total amount paid by the dealer for all purchases made from the public for market support;

ii) compute the amount received by the treasury of the issuer from the distribution. If the founders have received shares as repayment of money advanced to the issuer as provided in sections 5.2 and 5.3 of Part II of this Policy Statement, the amount of such indebtedness settled by the issuance of shares shall be included in the computation of the amount received by the treasury of the issuer except to the extent that the Director concludes that the indebtedness was unduly large in the circumstances or that the proceeds thereof were not fully applied for benefit of the issuer;

c) if on the computation date the number of shares purchased with the funds in the trust account is not at least equal to the number of shares oversold then the entire remaining portion of the trust account must be paid to the issuer; and

d) if the proceeds received by the issuer from the distribution of its treasury shares computed in accordance with section 16.3(b)(ii) above plus any funds paid to the issuer pursuant to section 16.3(c) is not equal to at least 35% of the amount computed as at the computation date pursuant to section 16.3(b)(i) above, the dealer shall make a payment to the issuer to ensure such minimum proceeds are received by the issuer. Such payment shall be made within 30 days of the computation date.

Market Balancing

17.1 A dealer may make market balancing transactions in an offered security as purchaser or seller so that trading remains orderly.

PART IX
MERGERS AND CONSOLIDATIONS

1.1 Where a merger of 2 or more issuers occurs, whether by amalgamation or otherwise, and the result is that the holders of base shares of 2 or more predecessor issuers become the holders of base shares of the issuer resulting from the merger, the following principles shall apply with respect to earned releases based upon expenditures incurred.

1.2 The number of base shares of a holder to be released is to be computed using the following formula:

$$\text{number of base shares released for expenditures} = \frac{\text{the number of base shares owned by the holder following the merger}}{\text{total of all base shares outstanding following the merger}} \times \frac{\text{the expenditures incurred expressed in dollars}}{\begin{array}{l}\text{the expenditure release rate (1)} \\ \text{prior to the merger attributable} \\ \text{to the base shares held by the} \\ \text{holder expressed in dollars}\end{array} \times \begin{array}{l}\text{the merger ratio applicable to} \\ \text{the holder's base shares}\end{array}}$$

(1) See footnote 1, Table B.

1.3 For consolidations of the securities of an issuer which do not involve a merger, the expenditure release rate after the consolidation shall equal the expenditure release rate before the consolidation multiplied by the consolidation ratio.

PART X

PRIVATE PLACEMENTS

1.1 In this Part X:

a) "agreement day" means the earlier of the day on which a private placement agreement is entered into by the issuer and all placees in writing and the day that the management of an issuer determines by resolution that an offering by way of offering memorandum is to be made by the issuer;

b) "placee" means a person or company which purchases securities which are the subject of a private placement;

c) "private placement" means an issuance of securities of an issuer from its treasury without the filing of a prospectus with the Commission in reliance upon an exemption contained in clauses a, b, c, d, or p of Section 71(1) of the Act or Clause 14(g) of the regulations to the Act or equivalent legislation of another jurisdiction outside Ontario; and

d) "warrant" means any right to acquire securities of an issuer.

1.2 Every private placement agreement with an issuer, whether or not it includes a subscription for securities pursuant to an offering memorandum, shall contain a representation and warranty of the placee that the securities are not being purchased as a result of any material fact or information about the issuer that has not been publicly disclosed.

News Release

2.1 a) All private placements shall be deemed to be a "material change" in the affairs of the issuer and accordingly, the issuer must issue a news release disclosing the material particulars of the private placement on the agreement day.

b) If the private placement is subsequently terminated, the issuer must promptly issue a news release disclosing the material particulars of such termination.

Private Placements - Issue Price

3.1 "Trading" for the purpose of this Part X means trading in the normal market place where securities of the issuer are traded and does not include private agreements.

3.2 a) "Average Price" of the issuer's securities shall be the arithmetic average of the closing price of the relevant securities for those days which are included in the average. Where no trading occurs on a particular day, the closing price shall be the average of the bid and ask prices (if any) for such day, otherwise such day shall be excluded in computing the average price.

b) "Weighted Average Price" of the issuer's securities shall be the price determined by multiplying the daily volume of trading for each day which is included in the average by the closing price of the relevant securities for each respective day and thereafter dividing the sum of all such products by the total number of days.

3.3 Subject to the provisions of sections 3.5, 3.6, 3.7 and 3.8 of this Part X, the price per security of a private placement shall not be lower than the "Base Price" less the maximum discount as follows:

Base Price	Maximum Discount Therefrom
\$0.50 or less	25%
\$0.51 to \$2.00	20%
above \$2.00	15%

3.4 The "Base Price" shall be:

a) the Weighted Average Price of the issuer's securities for the 5 trading days preceding the agreement day;

b) if no trading occurred on each of the said 5 days, then the Weighted Average Price of the most recent 5 days preceding the agreement day on which actual trading occurred; or

c) if trading has not occurred on at least 5 days during the 90 days preceding the agreement day, then no market shall be deemed to exist.

3.5 If the Average Price of the issuer's securities over the 2 week period preceding the agreement day is greater than the Base Price by a percentage equal to or greater than the appropriate discount percentage referred to in section 3.3 hereof, then the price per security in a private placement shall not be lower than the Base Price.

3.6 The minimum net price to the treasury of an issuer per security sold by way of a private placement shall be 10¢.

3.7 Where the securities which are the subject of the private placement contain a tax incentive such as permitting the issuer to "flow-through" expenditures to the placees, the price per security shall not be lower than the Base Price.

3.8 If a material change in the affairs of the issuer is announced by the issuer during the 2 week period following the agreement day and if such material change is not directly or indirectly related to or caused

by the private placement, then the minimum price per security to be paid by the placee shall be at least equal to the closing price per security on the trading day after the day on which the material change was announced less the appropriate discount, if such new price is greater than the agreed price of the private placement before the announcement of the material change.

Shareholder Approval

4.1 The shareholders of the issuer shall be required to approve a private placement if:

a) more than 50% of the securities being sold are proposed to be purchased by placees who are not dealing on an arm's-length basis with the issuer. (This subsection shall not apply to any agreement by a non arm's- length party to guarantee the success of a private placement made by an offering memorandum); or

b) the number of securities of any class proposed to be issued is equal to or greater than 50% of the number of issuer's securities of that class outstanding before giving effect to the issuance of the securities which are the subject of the private placement. For the purpose of such calculation any warrants forming part of the private placement shall be deemed to have been exercised; or

c) the issue of the private placement securities may result in, or such placement is part of, a transaction involving a change in the effective control of the issuer. In making a determination of control or effective control, any warrants forming part of the private placement shall be deemed to be exercised.

4.2 If during the 12 months preceding the agreement day, placees who are not dealing on an arm's-length basis with the issuer have purchased

(by way of private placement at a discount from the applicable Base Price) securities of the issuer of the same class as those proposed to be sold, and if the number of securities previously purchased when combined with the number of securities proposed to be purchased by placees who are not dealing on an arm's-length basis with the issuer in the new private placement exceeds 20% of the issued and outstanding securities of that class of the issuer calculated after giving effect to the new private placement (but without giving effect to the exercise of any warrants forming part of either private placement), then the placees, their insiders, associates and affiliates may not vote at any meeting of security holders called for the purpose of approving the new private placement if the new private placement is proposed to be made at a discount from the Base Price.

4.3 For the purposes of section 4.1(a) and 4.2 hereof, the parties will be considered not to be dealing on an arm's-length basis if any insider or promoter of the issuer or an associate or affiliate of either is also a placee or an insider or promoter of a placee or an associate or affiliate of either. The Director may also decide whether parties to a transaction not so related may be dealing with each other at arm's-length at a particular time.

Closing of Private Placements

5.1 The first closing of securities of an issuer offered by way of private placement:

a) made pursuant to an agreement between the issuer and the placee shall occur within 45 days of the agreement day; or

b) made pursuant to an offering memorandum shall occur within 75 days of the agreement day.

5.2 If the first closing does not occur as provided in section 5.1(a) or (b) hereof, then unless the failure to close was not due to any act or omission on the part of such placee, no subsequent private placement to a placee who was party to the terminated private placement may be made within 30 days following the date for the first closing specified in section 5.1(a) or (b).

Warrants

6.1 Warrants to purchase securities of an issuer may be issued as part of a private placement if all of the following conditions are met:

a) the warrants do not entitle the holder to purchase a greater number of securities than the number of such securities originally sold to placees under the private placement;

b) the warrants shall be exercisable during a period not extending beyond 5 years from the date of the first closing of the private placement transaction; and

i) where the warrants have a term of 2 years or less from the date of the first closing of the private placement transaction specified in section 5.1, the warrant exercise price shall be not less than the Base Price as defined in section 3.3 hereof;

ii) where the warrant has a term exceeding the 2 years provided in 6.1(b)(i) above, the warrant exercise price shall be not less than the Base Price and shall be increased annually after the first year by a minimum annual amount as follows:

Base Price	Minimum Annual Increase
$0.50 or less	10¢
$0.51 to $2.00	20¢
Above $2.00	30¢

Private Placement - Fees

7.1 Where a trade is made by an issuer in reliance upon either of the exemptions contained in Section 71(1)(c) or (d) of the Act, a fee may be paid to any person acting as agent in connection with the trade in cash or in securities of the issuer or a combination thereof. Securities shall be valued at the issue price to the purchaser and, shall be subject to the resale restrictions which would apply if such securities were acquired pursuant to the exemption relating to the trade in respect of which the fee was paid.

PART XI

BONUSES FOR LOANS AND GUARANTEES - FINDER'S FEES

1.1 The issuance of shares or share purchase warrants (the "warrants") in consideration of loans or loan guarantees made by both arm's-length and non arm's-length lenders is permissible. It is the responsibility of the directors to make the best possible agreement on behalf of the issuer and to act in good faith with the interests of the issuer taking precedence over self interest. The following guidelines are provided:

1.2 Arm's-length or non arm's-length persons may receive a bonus for loans to an issuer or for guarantees of an issuer's loans made by third parties if:

a) the loan and/or guarantee must be necessary and it must be the case that it would not have been granted without a bonus to the lender or the guarantor;

b) the value of the bonus if paid in shares does not exceed 5% of the amount of funds loaned or guaranteed;

c) the bonus if paid in warrants does not entitle the holder to purchase more than double the number of shares permitted in section 1.2(b);

d) the warrants may be exercised for a period of 2 years from the date of the loan or guarantee or, up to 30 days following the repayment of the loan or release of the guarantee, whichever is shorter;

e) the value of the bonus paid pursuant to sections 1.2(b) and (c) hereof shall be pro rated on a monthly basis for any loan or guarantee which by its terms is required to be repaid or released earlier than 12 months from the date of the loan or guarantee;

f) if the circumstances of an issuer change and the issuer repays a loan or releases a guarantor in less than 12 months from the date of the loan or guarantee where the original term of the loan or guarantee was given for 12 months or more from its date, then the lender or guarantor is not obligated to repay to the issuer any part of the bonus received if the lender or guarantor did not take part in the decision of the issuer to make the early repayment or to give the early release. In all other circumstances the repayment of a loan or the release of a guarantor in less than 12 months shall be treated as if the provisions of section 1.2(e) were applicable thereto and any excess bonus paid to a lender or guarantor shall be forthwith returned to the issuer; and

g) the issue price for the shares or the exercise price for the warrants must be set at a price that would not be less than the Base Price determined in accordance with section 3.4 of Part X if a private placement were being made and the agreement day shall be deemed to be the date the funds are loaned or guaranteed.

1.3 In circumstances where the issuer has given no security to the lender or the guarantor and the ability of the issuer to repay the loan is not evident in that it has no funds or any immediate source of funds, the maximum bonus permitted to be paid by an issuer may be increased to 20% in lieu of the 5% provided in section 1.2(b) and the term of the warrant may be increased to 3 years in lieu of the 2 years provided in section 1.2(d). Section 1.2 shall otherwise apply unamended.

1.4 Interest charged (if any) on such loans should be set at a rate no higher than 2 percentage points above the prime rate charged by the issuer's bankers to its most creditworthy commercial customers.

1.5 Shareholder approval shall be obtained for any bonus given to a non arm's-length lender or guarantor that exceeds 50% of the maximum bonus permitted to be paid by an issuer.

1.6 For the purposes of section 1.5 hereof, the parties will be considered not to be dealing on an arm's-length basis if any insider or promoter of the issuer or an associate or affiliate of either is also a lender or guarantor or an insider or promoter of a lender or guarantor or an associate or affiliate of either. The Director may also decide whether parties to a transaction not so related may be dealing with each other at arm's-length at a particular time.

Finder's Fees and Commissions

2.1 Issuers receiving a measurable benefit through the efforts of persons (or agents) may reward those efforts by paying a finder"s fee or commission in the form of cash, securities, warrants to purchase securities or an interest in assets. The benefit may be in the form of a private financing, acquisition of an asset, the sale of an asset, or any other measurable benefit that has in fact been received by the issuer.

2.2 The consideration to be paid as a fee or commission may vary considerably depending on the circumstances peculiar to a given situation. Because there are many variables that could influence a determination as to what is reasonable, no firm policy in that regard has been established. The following guidelines are, however, provided:

a) no payment of a fee or commission may be paid to insiders or their associates or for services or benefits not yet received;

b) the consideration is usually stated in dollars and as a percentage of the value of the benefit received. Issuers are encouraged to negotiate within the parameters set out below:

On the first \$300,000	Up to 10%
\$300,000 to \$1,000,000	Up to 7½%
\$1,000,000 and over	Up to 5%

c) issuers should generally scale the percentage downward as the value figure increases.

2.3 a) The value of shares issued as a finders fee or commission should be determined at the average price of the shares over a period of 30 days but in any event shall not be less than 15¢ per share. The 30 day period would normally be the 30 days preceding the date the benefit is received by the issuer or the 30 days preceding the date of the agreement to confer the benefit, whichever is agreed upon by the issuer and the finder or the agent of either party. Average price shall have the meaning specified in section 3.2 (a) of Part X.

b) If share purchase warrants are to be issued as a finders fee or commission instead of shares, cash or an interest in assets, the share purchase warrants may entitle the recipient to acquire up to double the number of shares that may be permitted under section 2.3(a) above at the average price as defined therein. The term of any such warrant shall not exceed 2 years.

2.4 Where securities are issued in accordance with Part XI of this Policy Statement, the first trade in such securities is a distribution unless such first trade is made in accordance with subsection 71(5) of the Act as if subsection (5) were applicable thereto. The first trades in common shares acquired on the exercise of the warrants which were acquired pursuant to this Part XI are not subject to Section 52 of the Act, provided that:

a) at the time of such first trade, the issuer is a reporting issuer and is not in default of any requirement of the Act or the regulation;

b) the hold period specified in Section 71(5) of the Act has elapsed from the date of acquisition of the right to earn the warrants by the vendor;

c) the vendor files with the Commission a report of the first trade in the prescribed form within 10 days of the trade;

d) such trade is not a distribution as defined in subparagraph 1(1)11(iii) of the Act; and

e) no unusual effort is made to prepare the market or create a demand for the common shares and no extraordinary commission or consideration is paid in respect of such trade.

2.5 The payment of finder's fees and commissions described in sections 2.1 through 2.4 of this Part XI are not permitted to be paid without the consent of the Director to dealers, their directors, officers, sales representatives or associates of any of them. Part VIII of this Policy Statement is intended to provide the dealer compensation.

PART XII

SHARES FOR DEBT

1.1 The term "shares for debt" refers to the issuance of shares for the settlement of trade or other accounts of an issuer which are otherwise normally paid in cash.

1.2 Issuers may be unable (or in certain circumstances, unwilling) to make payment for such accounts in cash and may negotiate with creditors to settle outstanding debts by issuing shares; however, this type of payment represents a dilution of the interests of shareholders and may require their prior approval.

1.3 The important factors the directors should consider in this type of settlement are as follows:

a) the issuer has no funds or immediate source of funds, or that available funds have been otherwise committed; and

b) the conversion of debt into equity will place the issuer in a positive working capital position and/or will otherwise enable the issuer to continue as an ongoing concern.

1.4 Shareholder approval shall be obtained:

i) where more than 50% of the debt proposed to be converted into equity is owed to a creditor or creditors who are not dealing at arm's-length with the issuer; or

ii) where the issuance of shares for debt in any 12 month period would exceed 5% of the issued capital of the issuer at the beginning of the period.

1.5 The securities issued for debt will be subject to resale restrictions. For creditors not at arm's-length, the first trade in securities issued for debt is a distribution unless such first trade is made in accordance with subsection 71(4) of the Act as if subsection (4) were applicable thereto. For creditors at arm's-length, subsection 71(5) of the Act shall be applicable to the first trade in securities issued for debt.

1.6 For the purposes of section 1.5 hereof, the parties will be considered not to be dealing on an arm's-length basis if any insider or promoter of the issuer or an associate or affiliate of either is also a creditor or an insider or promoter of a creditor or an associate or affiliate of either. The Director may also decide whether parties to a transaction not so related may be dealing with each other at arm's-length at a particular time.

1.7 The price per share at which the debt may be converted shall be either 15¢ per share, or the Average Price for the shares during the 30 day period preceding the effective date of the debt settlement agreement between the issuer and the creditor(s), whichever is greater. The effective date shall not be earlier than the date of the agreement. If, however, the shares are to be held pursuant to a Section 71(4) resale restriction, they may be issued at a discount from the Average Price using the percentage permitted to private placements in Section 3.3 of Part X. Average Price shall have the meaning specified in section 3.2(a) of Part X.

1.8 If a share consolidation is proposed or planned as part of an issuer's debt settlement restructuring plan, then the minimum issue price of any shares to be issued as part of the debt settlement must be calculated by multiplying the number of unconsolidated shares required to be exchanged for one consolidated share by the price per share determined in accordance with section 1.7 above.

PART XIII
REPORTING ISSUERS WHICH PURCHASE OTHER SECURITIES

1.1 This Part XIII shall apply to purchases of securities by reporting issuers of other issuers which are made for cash in the normal market place where securities of the target issuer are traded. Private agreements, purchases which are not solely for cash, or takeover bids made in compliance with the Act and the regulation are not subject to this Part XIII.

Issuers Without Common Insiders

2.1 Only issuers which have been reporting issuers for more than 1 year may apply surplus funds to the purchase of securities of other issuers. If the two issuers do not have a common insider, the following limitations shall apply:

a) the maximum amount of surplus funds that may be expended is $150,000. If an issuer proposes to make expenditures exceeding the above-noted amount, prior approval of the Director will be required; and

b) all purchases are to be made from surplus funds derived from the exercise of options or warrants, unallocated working capital or cash flow. In addition to these surplus funds, the issuer must have the financial capability to cover at least one year of normal operating expenses.

Issuers With Common Insiders

3.1 Reporting issuers proposing to purchase issued securities of another issuer which has one or more common insiders must, in addition to the requirements of section 2.1 above, meet the following additional requirement prior to the purchase of securities of the target issuer:

a) the purchase must be made for investment purposes only and any securities so purchased shall be held for a minimum 12 month period. The sale of any such securities within 12 months of purchase will require the prior approval of the Director.

Filing Requirements

4.1 a) Before commencing any purchase program to which this Part XIII applies, a letter shall be filed with the Director by a director or officer of the reporting issuer stating:

i) that the purchase funds are at such date surplus to the issuer's ongoing activities;

ii) the various matters which are the subject of the news release described in section 5.1(a) below;

iii) that the investment merit of the proposed purchase has been considered by the directors of the issuer who have passed a resolution in favour of the transaction; and

iv) that the directors and other insiders who exercise control over the affairs of the issuer have been notified of the purchase program and advised that they and their associates should not buy or sell securities of the target issuer during the period in which the issuer is purchasing securities until after the publication of the announcement of the conclusion of the purchase program referred to in section 5.1(b) below.

Public Disclosure

5.1 a) Before commencing any purchase program to which this Part XIII applies, the reporting issuer must issue a press release which shall include the following information:

i) the merits and risks of the proposed purchase;

ii) the duration of the purchase program;

iii) the maximum number of securities to be purchased;

iv) the maximum dollars to be spent and the percentage of surplus funds involved;

v) the direct and indirect interest of the insiders of the reporting issuer and their associates in the securities and management of the target issuer;

vi) a summary of current activities and plans of the reporting issuer and, if known, of the target issuer;

vii) the market place where the securities of the target issuer are traded; and

viii) the number and percentage of the issued securities of the target issuer owned by the reporting issuer.

b) Upon completion or termination of the purchase program, the reporting issuer must issue a news release stating the number of securities purchased and the purchase cost.

PART XIV
SHARE CONSOLIDATIONS

From time to time, the management of a reporting issuer determines that it is in the best interests of the issuer to effect a share consolidation, sometimes called a "rollback", of any of the issuer's outstanding securities. The following guidelines have been established to cover such situations.

1.1 The name of the issuer shall be changed as part of the consolidation process. The issuer's new name should be significantly different than the previous name to ensure that there is no confusion on the part of the investing public.

1.2 A reporting issuer proposing a share consolidation must issue a news release disclosing the proposed consolidation not later than the date on which the issuer mails its information circular and proxy material to its shareholders. The news release shall disclose:

a) the proposed consolidation ratio;

b) the number of securities currently outstanding and the number which would be outstanding after the proposed consolidation;

c) the reasons for the consolidation;

d) the date of the shareholder meeting;

e) the fact that the consolidation is subject to shareholder approval; and

f) any other actual or proposed "material change".

1.3 The prior approval of the Director will be required for any share consolidation which has the effect of reducing the number of issued shares of a reporting issuer to less than 750,000 after the issuance of any shares proposed to be issued by way of debt settlement, but excluding any escrow shares which are proposed to be issued and excluding any other shares which are proposed to be issued as part of a subsequent private or public financing.

1.4 The prior approval of the Director will be required for any share consolidation if the effect of such consolidation, either alone or in combination with any prior consolidation with the 12 month period preceding the resolution of the management of the reporting issuer to effect such consolidation, would have the combined effect of consolidating the issued capital of the reporting issuer on a basis greater than 1:10.

1.5 Where the consolidation occurs as the result of a statutory amalgamation, section 1.3 of this Part XIV shall apply to the amalgamated issuer.

PART XV

ACQUISITIONS OF ASSETS FROM INSIDERS

1.1 This Part XV applies only where an issuer proposes to acquire a non resource property or other asset or interest therein (a "property") directly or indirectly, from an insider or an associate of an insider (collectively referred to as the "insider").

1.2 The term "acquisition" shall mean a transaction whereby an issuer proposes to acquire an interest in a property, but does not include a transaction meeting the requirements of Part VI of this Policy Statement.

1.3 If the insider has beneficially owned the property for a period exceeding one year, the acquisition involving an insider may be made if:

a) the value of the property has been maintained or increased due to the efforts of the insider;

b) the proposed consideration to be paid by the issuer does not exceed the fair market value of the property and the price is determined by the directors of the reporting issuer to be fair and reasonable in the circumstances; and

c) the shareholders of the issuer have approved the acquisition.

1.4 If the insider has not beneficially owned the property for a period exceeding one year, the acquisition involving an insider may be made if:

a) sections 1.3(a) and (c) above are satisfied; and

b) the proposed consideration to be paid by the issuer to the insider for the property is limited in amount to the insider's out-of-pocket costs related to the acquisition and maintenance of the property.

1.5 In a transaction covered by sections 1.3 or 1.4 above, the insider may reserve an interest in the property provided that such interest does not exceed more than 5% of the interest in the property which would otherwise accrue to the benefit of the issuer.

1.6 The Director may permit the payment of a greater consideration than is provided in sections 1.3 or 1.4 above if:

a) the insider acquired the property prior to the time he became an insider of the issuer; or

b) at the time the insider acquired the property, the issuer did not have the financial resources to acquire the property.

1.7 If payment for the property is to be made in shares of the issuer, the value of shares so issued shall be computed on the same basis as that used in Part XII for the settlement of debt to non arm's-length creditors with a minimum price of 15¢. The first trade in such shares is a distribution unless such first trade is made in accordance with subsection 71(4) of the Act as if subsection (4) were applicable thereto.

PART XVI

MANAGEMENT REMUNERATION

1.1 The maximum monthly cash fee paid or payable in the aggregate to management of issuers which have no cash flow or immediate source of funds, other than by public subscription, is $3,000.

1.2 The above limit may be varied by the Director depending on particular circumstances such as the stage of development of the issuer and the qualifications of management and the services they provide.

1.3 An agreement setting out the responsibilities and specific services to be provided shall be entered into between the issuer and its management and filed with the Director, if requested.

Management Stock Options

2.1 Issuers may remunerate directors and officers by creating stock options or stock option plans subject to the following requirements:

a) an option must be non-transferrable, except that in the case of an optionee's death, the option(s) may be exercised by such optionee's legal personal representative in accordance with the terms of the option;

b) the option must expire no more than 5 years from the time of grant;

c) the aggregate number of securities reserved for issue shall not in the aggregate exceed 10% of the number of common shares of the issuer that are issued and outstanding from time to time;

d) the exercise price per security must not be lower than the Base Price for private placements computed as provided in Part X less the maximum discount as follows:

Base Price	Maximum Discount Therefrom
$1.00 or less	20%
$1.01 to $5.00	15%
above $5.00	10%

e) no one person shall have outstanding options exceeding 50% of the number of options permitted in subparagraph (c) above; and

f) the options and the grant thereof are in compliance with the blanket ruling of the Commission entitled "Trades by Issuers in Options to Senior Officers and Directors", as amended from time to time.

PART XVII
FINANCIAL ASSISTANCE FROM OFFICERS AND DIRECTORS

1.1 The directors and officers of an issuer and the associates of such directors and officers (collectively referred to as the "Purchasers") may provide financial assistance to the issuer and acquire securities of the issuer on the following basis:

a) the aggregate acquisition cost of all securities of the issuer purchased pursuant to the provisions of this Part XVII by all of the Purchasers aforesaid during any 12 month period does not exceed $50,000;

b) the purchase price shall be paid in cash and shall be not less than the Base Price minus the allowable discount computed in accordance with the provisions of Part X of this Policy Statement; and

c) the trade resulting from any resale of such securities shall be subject to the provisions of Section 71(4) of the Act as if Section 71(4) were applicable thereto.

1.2 Shareholder approval for the acquisition of securities pursuant to this Part XVII is not required and the proceeds from the sale of such securities may be used by the issuer for general working capital purposes.

1.3 This Part XVII is intended to enable the Purchasers to have an expedient method of providing an issuer with modest amounts of working capital and is not intended to otherwise limit or restrict any other provisions of the Act, the regulations thereto or this Policy Statement relating to the acquisition of securities of an issuer by persons falling within the category of Purchasers as described above; nor is this Part XVII intended to restrict promoters who may avail themselves of the exemption contained in Clause 14(c) of the regulations to the Act.

PART XVIII

ADJACENT RESOURCE PROPERTIES AND RETAINED INTERESTS

1.1 This Part XVIII does not apply to non resource properties which are covered by Part XV, to transactions entered into where each of the parties are dealing on an arm's-length basis, nor to non arm's-length transactions where the parties affected are reporting issuers. A transaction will be considered to be not at arm's-length according to the tests described in section 1.3 of Part VI hereof.

1.2 The Commission recognizes that a great variety of agreements are entered into during the course of the exploration and development of mining properties, including option agreements and joint venture agreements. While the greatest flexibility should be permitted in the structuring of such agreements, it is not in the public interest that the risk of exploration be undertaken by issuers while at the same time related parties hold interests in adjacent or contiguous properties which could be enhanced as the result of public expenditures. The Commission also recognizes that in certain instances the amount of property held by a vendor may be larger than the issuer is financially capable of acquiring, or can be reasonably expected to be capable of adequately exploring. Having regard to these various concerns, the following guidelines shall apply:

a) the vendor in a non arm's-length transaction with an issuer, may reserve royalties or net profit interests as permitted by section 5.1 of Part VI but shall not, except in respect of a transaction falling within 1.2(b) or (c) below, retain any interest in the resource property acquired by the issuer or in any property adjacent or contiguous thereto;

b) the vendor in a non arm's-length transaction may retain an interest in such property in excess of that provided in section 1.2(a) above, if:

i) the interest retained by the vendor is a full participating joint venture or working interest commencing from the effective date of the transaction with the issuer; and

ii) the issuer does not pay the vendor an amount exceeding that share of his actual out-of-pocket costs of acquisition and maintenance, including exploration and development expenses incurred by the vendor on the property to the date of the transaction with the issuer, which is proportionate to the interest acquired by the issuer;

c) the vendor in a non arm's-length transaction may retain an interest in adjacent or contiguous resource properties if:

i) the vendor does not retain any interest in the property acquired by the issuer in excess of that permitted in section 1.2(a) or (b);

ii) the property transferred comprises not less than approximately 2 square miles (64 claims in Ontario);

iii) the issuer at the time of acquisition was afforded the opportunity to acquire the adjacent or contiguous property or an interest therein, on terms not less favourable than those applicable to the properties which the issuer acquired, and the issuer declined such opportunity; and

iv) the vendor did not take part in the decision of the management of the issuer not to acquire the adjacent or contiguous properties retained by the vendor.

1.3 Where a vendor who is not at arm's-length with an issuer

a) enters into a transaction with the issuer which falls within the ambit of sections 1.2 (a) or (b); and

b) acquires in a subsequent transaction a property or interest therein any part of which subsequently acquired property lies within 1 mile from the boundary of the property which was the subject of the original transaction as such boundary appears at the time of the subsequent transaction; and

c) the date of the subsequent transaction is within 6 months of the effective date of the original transaction; then

> the vendor shall forthwith offer the issuer the opportunity of acquiring the subsequent property on terms not less favourable than those permitted in respect of a transaction falling under sections 1.2 (a) or (b). The vendor may retain such subsequent property or interest therein if the issuer declined the offer of the vendor and the vendor did not take part in the decision of the management of the issuer not to acquire such subsequent property or interest therein.

1.4 In assessing whether a resource property is adjacent or contiguous to another resource property, issuers should look at the substance of each transaction. For example, properties which have dissimilar geological targets may not be adjacent even though they are located in close proximity nor, in the case of oil and gas properties, will differing geological horizons on the same property be considered to be adjacent. Properties whose boundaries at any point lie within 1 mile of each other shall in the absence of contrary evidence be considered to be adjacent.

PART XIX

MISCELLANEOUS

Issuer Names

1.1 The name of the issuer should be descriptive of its business, for example "XYZ Exploration Limited". The unqualified words "Mine" or "Mining" will not be acceptable in the case of new companies until such time as the company has a proven ore body capable of being profitably mined: e.g. "XYZ Mines Limited" or "XYZ Mining Company Limited". In the case of an existing company, there is no need to change such name but face page disclosure on the prospectus must clearly state that it is an exploration and development company, unless the company has an ore body.

Track Records of Officers, Directors and Promoters

1.2 The prospectus of an issuer shall state for each of its officers, directors and promoters all associations for the previous 3 years with other public companies, including the period and nature of the association. There shall also be stated the aggregate number of those companies which, during the time the individual was associated with them, had either their charters cancelled or whose securities were the subject of a cease trade order issued by the Commission having a duration longer than 60 days or that were dormant and in respect of which a cease trade order had been made under Commission Policy 2.6.

Promotional Fees

1.3 Where a trade is made by an issuer or a promoter of an issuer in reliance upon the exemptions contained in Section 71(1)(p) of the Act or Clause 14(g) of the regulation to the Act, a fee may be paid to the promoter of the issuer for promotional services provided such fee does not exceed 5% of the price paid for the securities which are the subject of such trade. Such fee may be paid in cash or in securities of the

issuer or any combination thereof. Any securities issued to the promoter shall be valued at the price paid by the purchaser and the trade resulting from any resale of such securities shall be subject to the provisions of Section 71(4) of the Act as if Section 71(4) were applicable thereto.

Resale of Securities Issued Pursuant to Section 71(1)f(iii) of the Act

1.4 Where a trade in securities (the "original securities") of an issuer is permitted by this Policy Statement, subject to the restriction that the first trade in such original securities is a distribution unless such first trade is made in accordance with subsection 71(4) of the Act, and where the original securities include rights to purchase, convert or exchange such original securities into other securities of the issuer, and where securities of the issuer are issued pursuant to the exemption contained in Section 71(1)(f)(iii) of the Act by exercising the rights to purchase, convert or exchange contained in the original securities, then for the purpose of subsection 71(4)(b)(iv) the date of the initial exempt trade shall be the date of the issuance of the original securities.

Partnership Rollover

1.5 Where a corporation is incorporated solely for the purpose of acquiring all of the issued securities or all of the assets and liabilities of a partnership and where such partnership is a reporting issuer, then upon such acquisition the corporation shall be deemed to be a reporting issuer as and from the date that the partnership became a reporting issuer.

Technical Review Committee

1.6 The Commission shall establish a committee of technical consultants which shall consist of seven members, of which two shall constitute a quorum. The Prospectors and Developers Association of Canada shall

propose a list of nominees for the committee, such list to be at least equal to the size of the committee. A majority of the members of the committee shall be selected from such list. Where a party affected by a decision of the Director as it relates to a technical matter wishes to have such decision reviewed, the party so affected may request that the matter be considered by the Technical Review Committee. The initiation of such proceedings shall be made by a request to the Director who shall forthwith convene a meeting of the committee. All of the rules and procedures concerning the operations of the committee shall be established by such committee with the consent of the Director.

Blind Pool

1.7 A prospectus may provide that up to 50% of the funds raised be designated "blind pool" funds for general working capital purposes. Where an issuer demonstrates to the Commission that it has competent and professional management with an extensive exploration background, then up to 100% of the funds raised may be designated "blind pool" funds. In the latter case, the Commission regards it as essential that such an issuer be well financed and normally will not permit an offering to proceed when the issuer will not have working capital of at least $2,000,000 after the completion of the offering. In a unit offering, funds that may be raised through the exercise of warrants shall not be included in calculating the size of a blind pool or of the issuer's working capital.

Geological Reports

1.8 In circumstances where it has been demonstrated that the cost or delays in preparing independent geological reports would be an undue burden on an issuer, and where such issuer has competent and qualified technical personnel on staff or otherwise available to it to prepare reports in accordance with the standards required in the regulations to the Act for the preparation of geological reports (other than for the

test of independence), the Director may permit the use of reports prepared by such persons if they are accompanied by a letter of comfort prepared by an independent consultant who certifies that he has reviewed the reports and has carried out such investigations as he considers necessary to enable him to adopt the report as his own report. In rendering such opinion, such consultant shall specify any qualifications to such opinion (for example, whether the independent consultant has visited the property) and the reasons therefor.

Cease Trade Orders

1.9 Where the securities of an issuer are the subject of a "cease trade" order of a regulatory authority, then the period during which such order was in force shall be excluded for the purpose of computing the "market price" in accordance with any of the sections of this Policy Statement.

Market Price

1.10 a) Market price for an issuer's securities shall be the arithmetic average of the closing price of the issuer's securities for the 30 days preceding the relevant date. Where no trading occurs on a particular day, the closing price shall be the average of the final bid and ask prices, if any, for such day, otherwise such day shall be excluded in computing the average price.

b) If the securities of the issuer have not traded at any time during the said 30 day period, then the market price shall be calculated using the method described in subparagraph (a) above for the next preceding 60 day period.

c) If the securities of the issuer have not traded at any time during the 90 days preceding the relevant date, then it shall be deemed for the purposes hereof that no market exists for such securities.

Management's Duty to Obtain the Best Price

1.11 Notwithstanding the prices at which trading in an issuer's securities has occurred or the fact that no market exists or is deemed not to exist, management of issuers are reminded that it is their obligation to ensure that the best possible price or value is obtained for the issuer in respect of any sale or distribution of an issuer's securities. Where the issuer's securities contain a tax incentive such as permitting the issuer to "flow-through" expenditures to subscribers, such fact should be considered by management in establishing pricing.

Reporting Requirements

1.12 Where a trade in securities of an issuer is permitted by this Policy Statement, which trade would not otherwise be exempt under the Act unless a ruling under Section 73(1) of the Act were obtained from the Commission, and where the first trade in such securities is a distribution unless such first trade is made in accordance with subsection 71(4) of the Act as if subsection (4) were applicable thereto, then Section 71(3) of the Act shall be applicable to the trade by the issuer.

Application of Former Policies

1.13 Many reporting issuers formed under predecessors of this Policy Statement when arranging new financing to develop newly acquired properties may wish to avail themselves of the provisions of Part VII of this Policy Statement which permits the issuance of additional base shares.

To encourage such reorganizations, applications may be made to the Director for this purpose by issuers which are not dormant issuers. Normally, this will require all outstanding "promoters shares" and "promoters warrants" issued under predecessors of this Policy Statement to be cancelled. Each situation will be dealt with in the light of its own particular circumstances. A reorganization must occur as a condition of granting any such application.

Where an issuer has outstanding securities which were placed in escrow prior to this Policy Statement becoming effective, the Director will be guided by the escrow release mechanism of this Policy Statement in respect of applications for releases from escrow.

Base Shares Held by Holding Companies

1.14 Section III F. entitled "Securities of Holding Companies" of Policy 5.9 of the Commission relating to "Escrow Guidelines - Industrial Issuers" shall apply, with appropriate changes where necessary in the context, to holding companies holding escrowed Base Shares issued pursuant to this Policy Statement.

PART XX
POWERS OF THE COMMISSION

1.1 Subject to such terms and conditions as it might impose, the Commission may:

a) exempt a person or company from any provision of this Policy Statement otherwise applicable; or

b) impose restrictions on a person or company beyond or in addition to those contained herein;

including, but not limited to, the provisions as to the amount of base stock permitted, where in its opinion it would be in the public interest to do so.

1.2 Wherever in this Policy Statement there is reference to any authority or discretion which the Director or any Deputy Director may exercise, the Commission may, at the request of any person or company directly affected by any decision made by the Director or a Deputy Director, hold a hearing to review such decision.

1.3 The Commission shall establish a Standing Liaison Committee which shall consist of seven members consisting of representatives of the Commission, the Prospectors and Developers Association of Canada, registered dealers, lawyers and the Ministry of Northern Development and Mines. The purpose of the Standing Liaison Committee will be to review the application of the policy from time to time for the purpose of recommending amendments thereto. The committee shall establish its own quorum and operating procedures.

APPENDIX A

FOUNDER STOCK CALCULATION

I. Calculation of Founder Contribution Level

Net tangible book value prior to the initial prospectus distribution $ ________

minus

50% of equity contribution represented by value shares to be sold by founders in the initial prospectus distribution ________

divided by

Net proceeds to the issuer from the initial prospectus distribution $ ________

multiplied by 100

equals

FOUNDER CONTRIBUTION ______%

II. Calculation of Dilutive Founder Stock (Base Stock)

			# Shares	%
Net tangible book value prior to the initial prospectus distribution	$ ______			
divided by				
Net offering price per share of the initial prospectus distribution	$ ______			
equals				
VALUE SHARES	______		______	____
Shares issued prior to the initial prospectus distribution	______			
less				
value shares	______			
plus				DILUTIVE FOUNDER STOCK LEVEL
shares issuable under a right to purchase granted prior to the initial prospectus distribution at a price which is less than the net offering price *	______			
equals				
BASE SHARES	______	(A)	______	____ * (A÷B x 100)
Shares issued prior to the initial prospectus distribution	______			
plus				
Shares issued under the initial prospectus distribution	______		______	____
equals				
ISSUED SHARES	______	(B)	______	100.0 *

* If there are shares issuable upon exercise of a right to purchase, convert or exchange granted prior to the initial prospectus distribution which is exercisable at a price below the net offering price of the shares offered under the initial prospectus distribution, the sum of the Value Shares, Base Shares and shares issued under the initial prospectus distribution will exceed the total issued shares.

APPENDIX "B"

ESCROW AGREEMENT

THIS AGREEMENT made this day of , 19--.

AMONG:

(hereinafter called the "Security Holders")

OF THE FIRST PART

- and -

(hereinafter called the "Trustee")

OF THE SECOND PART

- and -

(hereinafter called the "Issuer")

OF THE THIRD PART

WHEREAS the Security Holders presently own or are about to receive securities of the Issuer;

AND WHEREAS in furtherance of complying with the requirements of the Ontario Securities Commission (the "Commission"), the Security Holders are desirous of depositing in escrow certain securities of the Issuer owned or to be received by them;

AND WHEREAS the Trustee has agreed to undertake and perform its duties according to the terms and conditions hereof;

NOW THEREFORE THIS AGREEMENT WITNESSETH that for and in consideration of the aforesaid agreements, and of the sum of one dollar ($1.00) now paid by the parties hereto, each to the other (receipt of which sum the parties do hereby respectively acknowledge each to the other) the Security Holders covenant and agree with the Issuer and with the Trustee and the Issuer and the Trustee covenant and agree each with the other and with the Security Holders jointly and severally as follows:

1. Each of the Security Holders hereby places and deposits in escrow those of its securities of the Issuer which are represented by the certificates described or referred to in Schedule "A" hereto with the Trustee and hereby undertake and agree forthwith to deliver those certificates (including any replacement securities or certificates if and when such are issued and allotted) to the Trustee for deposit in escrow.

2. The parties hereby agree that the securities and the beneficial ownership of or any interest in them and the certificates representing them (including any replacement securities or certificates) shall not be sold, assigned, hypothecated, alienated, released from escrow, transferred within escrow, or otherwise in any manner dealt with, without the express prior consent, order or direction in writing of the Commission or except as may be required by reason of the death or bankruptcy of any Security Holder, in which cases, the Trustee shall hold the said certificates, subject to this agreement, for whatever person, firm or corporation shall be legally entitled to be or become the registered owner thereof.

3. It is agreed that escrowed shares will be released on the following basis:

(here set out the terms under which escrowed shares are to be released)

4. The Security Holders hereby direct the Trustee to retain their respective securities and the certificates (including any replacement securities or certificates) representing the same and not to do or cause anything to be done to release the same from escrow or to allow any transfer, hypothecation or alienation thereof except with and as directed by the written consent, order or direction of the Commission. The Trustee accepts the responsibilities placed on it hereby and agrees to perform the same in accordance with the terms hereof and the written consents, orders or directions of the Commission.

5. If during the period in which any of the said securities are retained in escrow pursuant hereto any cash dividend is received by the Trustee in respect of the escrowed securities, any such cash dividend shall be forthwith paid or transferred to the respective Security Holders entitled thereto. If during the period in which any of the said securities are retained in escrow pursuant hereto, any share dividend is received by the Trustee in respect of the escrowed securities, any certificates representing such share dividend must be deposited with the Trustee and be subject to the terms of this agreement.

6. All voting rights attached to the escrowed securities shall at all times be exercised by the respective registered owners thereof.

7. The parties hereby agree that the Commission may, in certain circumstances, including but not limited to the suspension from trading of the Issuer by the Commission, require that all or any of the securities then in escrow be tendered to the Issuer by way of gift or for cancellation. Any such securities shall remain in escrow subject to the terms and conditions of this agreement until the securities are fully and effectually cancelled or otherwise transferred for the benefit of the Issuer. Where the securities cannot be cancelled, they shall be held for the benefit of the Issuer by the Trustee and remain in escrow subject to the terms and conditions of this agreement but they shall not be voted and any dividends shall be donated back for the benefit of the Issuer.

8. The Security Holders hereby agree that any escrowed securities of the Issuer remaining in escrow 10 years following ______________, 19__ (here insert a date which shall be not later than the acceptance date of the initial prospectus distribution of the Issuer), shall be donated to and cancelled by the Issuer without payment by the Issuer of any consideration therefor. In order to effect such donation and cancellation, the Security Holders do hereby nominate, constitute and appoint the president of the Issuer from time to time as their true and lawful attorney with full power of substitution to execute in the name of and on behalf of the Security Holders such deeds, documents and other

instruments as may be necessary or desirable to give full force and effect to the provisions of this agreement insofar as it relates to the cancellation of escrowed securities as aforesaid. This power of attorney shall be coupled with an interest and shall survive the death or incapacity of the Security Holders. Where an application is made by the Issuer or the Security Holders to the Commission for an extension of the time by which the escrowed securities are subject to donation and cancellation then this power of attorney shall be suspended while such application is being processed but shall be immediately reinstated for use upon a decision being rendered by the Commission in respect of such application and only in accordance with the decision of the Commission.

For the purposes of this agreement the following terms shall have the following meanings:

a) "acceptance date" means the date of issuance by the Commission of the final receipt for the prospectus of an issuer;

b) "Commission" means the Ontario Securities Commission; and

c) "initial prospectus distribution" means the first distribution of securities of the Issuer pursuant to a prospectus filed with the Commission.

9. The Security Holders hereby jointly and severally agree to and do hereby release and indemnify and save harmless the Trustee from and against all claims, suits, demands, costs, damages and expenses which may be occasioned by reason of the Trustee's compliance in good faith with the terms hereof.

10. The Issuer hereby acknowledges the terms and conditions of this agreement and agrees to take all reasonable steps to facilitate its performance.

11. If the Trustee should wish to resign, it shall give at least six months' notice to the Issuer, which may, with the written consent of the

Commission, by writing appoint another Trustee in its place and such appointment shall be binding on the Security Holders and the new Trustee shall assume and be bound by the obligations of the Trustee hereunder.

12. The written consent, order or direction of the Commission as to a release from escrow of all or part of the said securities shall terminate this agreement only in respect to those securities so released. For greater certainty, this clause does not apply to securities transferred within escrow.

13. Any Security Holder may pledge or hypothecate any or all securities owned by it and deposited in escrow hereunder to a financial institution, provided that prior to such pledge or hypothecation of securities, such financial institution which must be acceptable to the Commission enters into an agreement with the Trustee and the Issuer whereby it agrees to be bound by the provisions of this agreement and acknowledges that the securities so pledged or hypothecated may not be sold, transferred or otherwise dealt with except in accordance with the provisions of this agreement.

14. This agreement may be executed in several parts in the same form and such parts as so executed shall together form one original agreement, and such parts if more than one shall be read together and construed as if all the signing parties hereto had executed one copy of this agreement.

15. Wherever the singular or masculine are used throughout this agreement, the same shall be construed as being the plural or feminine or neuter where the context so requires.

16. This agreement shall be construed and enforced in accordance with and the rights of the parties shall be governed by the laws of the Province of Ontario. Each of the parties irrevocably attorns to the jurisdiction of the courts of the Province of Ontario.

17. This agreement shall enure to the benefit of and be binding upon the parties hereto, their and each of their heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF the parties hereto have executed these presents the day and year first above written.

SIGNED, SEALED AND DELIVERED)
)
in the presence of) ______________________________
)
)
) ______________________________
)
)
) ______________________________
)

SCHEDULE "A"

Name of Security Holder	Beneficial Owner	Number of Securities	Certificate Number

APPENDIX

THE SUMMARY AND RECOMMENDATIONS OF VOLUME TWO

The Factors Affecting Ontario's Competitive Position

Ontario's mining industry competes on a worldwide basis; therefore, an examination of Ontario's competitive position becomes a large and complex undertaking. Many factors must be considered, including the following:

(i) The geological environment which dictates the type of deposits;

(ii) The data base which provides basic technical information;

(iii) The income tax structure which can encourage, discourage or be neutral;

(iv) Non-profit taxes;

(v) Availability of risk capital and markets to mobilize funds;

(vi) Availability of technical staff, labour and related incentives or disincentives for staff and labour to be productive;

(vii) The cost structure of labour. Canadian labour costs are usually 10-20 times labour costs of Third World countries;

(viii) Availability of infrastructure and assistance to put a mine in place. This factor is important in Canada with large distances to cover and remote areas;

(ix) Environmental regulations and the cost of their implementation;

(x) Social costs such as Unemployment Insurance, Workers' Compensation, Medical and other non-profit costs;

(xi) Wage levels of government and quasi-government agencies such as Hydro, Bell, CN, etc. which in recent years have put upward pressure on industry wage rates; and

(xii) The relationship of the Canadian dollar to the U.S. dollar (in which most commodities are priced). Third World and Communist countries devalue their currencies to maintain a competitive position.

Many conflicts develop. For example, a weak currency helps exporting industries but makes the costs of imported items more expensive. Construction industries and government agencies such as Hydro which do not compete on a world scale, often lead wage increases. This adds to the cost base of companies and often makes them uncompetitive.

The Committee has made a number of broad recommendations on the economic position as well as numerous specific technical recommendations. Some of these are beyond the Ontario Government's scope and require Federal approval. Some will conflict to some extent with other areas such as social plans, environmental rules and regulations, security and other regulatory requirements and available funding. As stated earlier, the competitive position is determined by dozens of different factors and the more items improved, the stronger the industry will be. All sectors (business, government and labour) must work together if we want to maintain our position in this worldwide important industry.

General Recommendations

These recommendations include a broad spectrum of items which affect the overall competitive position of the mining industry. Any and all factors which will keep costs competitive with other mining jurisdictions will help all Canadian exporting industries.

(i) Wage costs are the largest single item for most mining operations and will range from 30% to 70% of total operating costs. Canadian wage rates are generally higher by a factor of 10 to 20 times above most of our mining competitors in Third World countries. If Canada is to maintain a viable mining industry, labour, industry and government must work together to keep our costs to a minimum. Inevitable economic forces, as are taking place in the U.S., may require innovative compensation packages to fully employ our labour force.

(ii) Some social legislation adds to industry costs. Every time a well meaning piece of legislation adds regulations and costs, the industry becomes less competitive.

(iii) Environmental regulations may cause uncertainty, delays and extra costs for industry. The people in the industry live in the areas affected and both appreciate and support the need for sensible regulations to protect Ontario's environment. The regulators need to live in northern mining regions as well and have the knowledge and the authority to quickly suggest alternate approaches when environmental problems arise so that costly delays can be avoided.

(iv) The high costs associated with living in remote communities would be lowered by implementing a number of the recommendations of the Rosehart Report on Resource Dependent Communities in Northern

Ontario, May 1986. This would undoubtedly help to make our northern industries more competitive.

(v) With regard to the proposed Ontario Mining Act that has been under review for the last 17 years, we recommend that it be implemented as soon as possible.

(vi) The Ministry should set up a small development project group to expedite new mining projects through the regulatory maze.

(vii) The Committee is in general agreement with the mining industry's recommendations for the multiple use of park lands (e.g. the Temagami Copper Mines on Lake Temagami) and the industry's concern over land withdrawals and uncertainty caused by Indian land cautions. However these two areas were not reviewed by the Committee.

Ontario Geological Survey and Geoscience Data Base

The Committee would like to emphasize the importance of a good geoscience data base to assist in resource exploration and development. A large number of specific recommendations covering this very important section of the mining industry are listed in the appropriate sections and are summarized below.

(i) The Ontario Geological Survey operating budget at least needs to keep pace with inflation. In recent years, very important field mapping operations have been curtailed.

(ii) In consultation with industry, a priority list of areas to be geologically mapped at 1:20,000 and 1:100,000 should be prepared. More staff and funding are required so that the program can be completed within ten years.

(iii) For Resident Geologists' offices, a priority list of areas requiring data compilation should also be drawn up and budgeted for completion in three years.

(iv) The roles of the Ontario Geological Survey and the Resident Geologists should be defined to eliminate duplication.

(v) The existing Technical Liaison Committee should be given a more active role in advising the Ontario Geological Survey and the Ministry on government programs, exploration incentives and technical matters.

(vi) Research programs on geophysical and geochemical methods should be re-oriented because they essentially are duplicating industry's efforts. Emphasis should be directed to carrying out regional programs to provide a geoscience data base.

Taxation

(i) Capital Gains Taxes: The Committee believes that an Ontario capital gains tax would discourage the raising of risk capital and diminish flow-through share financings. Without appropriate financing, the junior mining sector will not produce taxable profits, thereby reducing the province's income through taxation. The spectre of such a tax also discourages promoters from returning to Ontario.

(ii) Ontario Mining Taxes: In order for the operator to recover his capital investment before cash flow is used to pay taxes, the Committee recommends that processing assets for new mines be eligible for accelerated depreciation as a tax deduction.

(iii) Ontario Corporate Income Taxes: The Committee recommends that Ontario consider changing its corporate income tax rules for mining to the resource allowance/earned depletion system that is in place in all other Canadian jurisdictions.

(iv) Increased Flow-Through Depletion for Exploration Costs: Despite the strong first place showing in the survey on incentives and the assessment by the Committee that this approach is technically the most efficient, the Committee has decided that sufficient funding is presently available and that an increase in the depletion credit is not necessary at this time.

(v) Flow-Through Depletion for Development Costs: The Committee recommends that Ontario and Quebec jointly request the federal tax authorities to permit a flow-through depletion allowance for development costs against non-resource income, similar to that which is allowed for exploration costs.

(vi) Income Debentures: While this item is also a federal responsibility, the Committee recommends that the province make representation to Ottawa for an after-tax type of financing vehicle for new investments in projects, plant and equipment. (Class 28)

(vii) Non-Profit Taxes: Governments are advised to carefully monitor and limit all types of non-profit taxes because collectively they impose a major burden on all industries.

Ontario Mineral Exploration Program (OMEP)

A number of recommendations are made for OMEP. These include:

(i) Make OMEP grants available only to companies with gross income of under $10 million;

(ii) Increase the number of permitted programs per company from one to two and permit amendments to programs as they evolve;

(iii) Recommendations for speeding up the processing and the pay-out processes;

(iv) Recommendations for improved working relationships with industry;

(v) Increase the size of the budget by 100%;

(vi) Amend the program so that the grants can either go to the company or the investors; and

(vii) Request the federal government to amend the rules that reduce the federal exploration write-off by the amount of the grant.

Ontario Share Ownership Plan (OSOP)

Several recommendations have been made for OSOP if and when the government institutes such a plan. They are:

(i) Include junior companies in OSOP and provide the highest incentives for the smaller companies because they have the most difficulty in raising risk capital.

(ii) Make the incentive available only to companies with Ontario projects and to non flow-through shares.

(iii) Provide a grant of one-third of the start-up cost for new companies, up to a total grant of $50,000.

Ontario Mine Development Fund

Over the past few years Quebec has successfully used development grants to push marginal projects into production. Their approach has been to provide up to 18% of the cost of a major item (shaft or mill) as a grant. They claim that because 80% of the funds are spent locally, that they make a profit on their investment within the first year and have the added benefit of long term jobs and taxes from the project.

Recently Quebec has been considering moving away from grants to a flow-through share system for development expenditures. Ontario should consider both possibilities but because of the absence of a separate tax collection system, the grant process would be the easiest to implement.

An option the Ministry has, is to set up a special fund (possibly $25 million) for new mine development and use it to move along new projects by paying up to 18% of certain development and/or capital costs.